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May 8, 1991

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Available information suggests that economic activity probably is in the process of bottoming out. Most notably, the housing sector appears to be improving, and motor vehicle production is increasing. However, businesses remain cautious, and restraint in spending on inventories and fixed capital is putting a damper on overall demand. The increased slack in labor and product markets this year has held down wage and price increases in many sectors, although a variety of special factors have tended to obscure the underlying trend of disinflation.

Labor Markets

Labor demand weakened further in April, although at a lesser pace than in previous months. Private payroll employment fell 99,000, with the job losses less widespread than in the first quarter, and the unemployment rate moved down 0.2 percentage point to 6.6 percent. In recent weeks, initial claims for unemployment insurance have dropped back below 500,000, and the number of insured unemployed workers has leveled out at around 3.5 million; these numbers suggest that payrolls probably have contracted somewhat further since the April labor market survey.

Manufacturing employment fell 42,000 last month, a much smaller decline than seen, on average, during the past two quarters. The largest job losses were reported in industrial machinery (15,000) and in transportation equipment other than automobiles (15,000). In the auto industry, employment rose 13,000 as some employees on temporary layoff were called back to work. The declines in construction employment (21,000) also moderated last month, while payrolls at business service establishments turned up slightly after

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1989	1990	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.	1991 Apr.
	-----------------Average Monthly Changes--------------							
Nonfarm payroll employment[2]	193	52	-203	-239	-191	-286	-241	-124
Private	162	20	-202	-257	-200	-318	-253	-99
Manufacturing	-16	-49	-109	-108	-78	-153	-93	-42
Durable	-16	-39	-79	-85	-56	-134	-64	-28
Nondurable	-0	-11	-30	-23	-22	-19	-29	-14
Construction	5	-19	-64	-64	-142	25	-74	-21
Transportation, public utilities	16	9	4	-17	1	-40	-12	-3
Wholesale trade	15	-1	-13	-26	-39	-21	-19	-15
Retail trade	32	-3	-58	-55	12	-118	-59	-39
Finance, insurance, real estate	9	4	-7	-1	0	-5	1	3
Services	100	79	44	15	49	-9	5	21
Health services	41	51	53	41	43	35	46	42
Total government	30	31	-1	18	9	32	12	-25
Private nonfarm production workers	134	7	-186	-235	-197	-292	-217	-70
Manufacturing production workers	-17	-42	-91	-89	-61	-135	-71	-24
Total employment[3]	148	-32	-103	-273	-652	-4	-164	644
Nonagricultural	148	-38	-123	-222	-562	-63	-40	587
Private wage and salary workers	125	-45	-193	-265	-391	-227	-178	44
Self-employed	5	20	29	10	-158	138	50	283

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; seasonally adjusted)

	1989	1990	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.	1991 Apr.
Civilian, 16 years and older	5.3	5.5	5.9	6.5	6.2	6.5	6.8	6.6
Teenagers	15.0	15.5	16.4	18.0	18.2	17.1	18.7	18.1
20-24 years old	8.6	8.8	9.2	10.1	9.5	10.5	10.3	10.1
Men, 25 years and older	3.9	4.4	4.8	5.5	5.1	5.6	5.8	5.6
Women, 25 years and older	4.2	4.3	4.6	5.0	4.9	4.9	5.3	5.2
Labor force participation rate	66.4	66.4	66.2	66.1	66.0	66.1	66.2	66.4

six months of decline. In contrast, trade employment continued to slide in April, with the loss of another 54,000 jobs; the decline more than offset the higher employment at service establishments. Aggregate hours of production or nonsupervisory workers fell 0.3 percent in April, reflecting the employment cutbacks in the nonfarm economy and a 0.1 hour drop in the average workweek. The decline in the workweek resulted from sharp falloffs in the workweeks for wholesale and retail trade. These declines were partly offset by an increase of 0.1 hour in the average factory workweek.

In the household survey, employment soared 644,000 in April, and unemployment fell almost 300,000. The sharp increase in employment reflected, in part, sizable increases in the reported numbers of government workers and self-employed workers. This sharp rise in government employment clearly is suspect, given the payroll figures and the spending restraint evident at all levels of government. In addition, while an increase in the number of self-employed workers, who are not included in the establishment survey, often takes place during recessions as laid off workers seek to maintain their incomes, it does not seem plausible that the rise would be so heavily concentrated in one month. Private wage and salary employment in the household survey was little changed in April, and since the peak in activity last July, it has matched the decline recorded in private payrolls.

Industrial Production

Industrial production probably was little changed in April after dropping rapidly from October through March. Following a small increase in March, motor vehicle production rose about 10 percent in April, with a jump in truck assemblies accounting for almost all of the gain; auto output rose a bit, but the increase was considerably less than scheduled by the

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion in total IP 1990:Q4	1990[1]	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.
			-Annual rate				
Total index	100.0	0.3	-7.0	-9.3	-0.5	-0.9	-0.3
Excluding motor vehicles and parts and utilities	87.7	1.0	-4.7	-8.2	-0.7	-0.6	-0.5
Products, total	61.4	0.6	-5.3	-8.7	-0.5	-0.9	-0.2
Final products	46.9	1.1	-5.3	-7.1	-0.1	-0.7	-0.0
Consumer goods	25.7	-0.7	-3.8	-7.1	-0.2	-0.9	0.4
Automotive products	2.2	-7.3	-37.6	-27.9	4.3	-4.0	0.8
Other consumer goods	23.5	0.0	0.4	-5.0	-0.6	-0.6	0.3
Durables	3.0	-3.9	-16.2	-11.7	-0.4	-1.7	-0.6
Nondurables	20.5	0.6	3.2	-4.0	-0.6	-0.4	0.5
Energy	2.7	-2.3	-2.4	-4.8	-0.1	-1.6	1.8
Other	17.8	1.0	4.1	-3.9	-0.7	-0.3	0.3
Business equipment	15.8	4.2	-7.6	-6.3	0.6	-0.6	-0.5
Motor vehicles	1.0	-9.4	-49.8	-41.2	6.0	-5.3	2.3
Other business equipment	14.8	5.3	-3.4	-3.5	0.2	-0.3	-0.6
Computers	2.7	9.0	-3.8	12.2	3.4	1.6	0.3
Other	12.1	4.5	-3.3	-6.7	-0.5	-0.7	-0.9
Defense and space equip.	4.8	-0.2	-4.7	-9.1	-1.5	-0.1	-0.5
Construction supplies	5.7	-4.6	-12.0	-20.7	-3.3	-1.3	-1.6
Materials	38.6	-0.1	-9.7	-10.2	-0.6	-0.8	-0.4
Durable	19.6	-0.5	-13.9	-15.0	-0.8	-0.8	-0.7
Nondurable	8.8	0.5	-5.5	-6.4	0.2	-1.8	0.1
Energy	10.2	0.0	-4.5	-3.8	-0.7	-0.2	-0.4
Memorandum:							
Manufacturing	84.9	0.3	-7.4	-10.2	-0.5	-0.9	-0.5
Excluding motor vehicles and parts	81.0	0.9	-4.9	-9.0	-0.7	-0.8	-0.5

1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION IN MANUFACTURING
(Percent of capacity; seasonally adjusted)

	1967-89 Avg.	1988-89 High	1990 Mar.	1991 Jan.	1991 Feb.	1991 Mar.
Total industry	82.2	85.0	83.4	80.0	79.1	78.7
Manufacturing	81.5	85.1	83.0	78.9	77.9	77.4
Primary processing	82.3	89.0	85.3	80.4	78.9	78.4
Advanced processing	81.1	83.6	82.0	78.2	77.5	77.0

manufacturers. All told, the increase in motor vehicle production added directly about 1/4 percentage point to total IP in April, and, if the automakers' current schedules for May are realized, the increase in assemblies could contribute another 1/4 percent to IP growth that month.

Excluding motor vehicles, industrial production is expected to be off only slightly in April, after posting sizable declines throughout last fall and winter. The output of some home goods, such as furniture, apparently improved noticeably in April. In addition, the production of construction supplies, which fell more than 20 percent at an annual rate in the first quarter, likely flattened; hours data for construction-related industries were little changed, on balance, in April and physical indicators of lumber and plywood production show signs of firming. However, output of equipment likely fell further last month, with evident weakness in industrial equipment; hours worked in that industry were down, and new orders declined further. On the positive side, there are indications that the production of textiles and paper improved last month.

Personal Income and Consumption

Data on consumer spending have given mixed signals of late. After falling sharply in January, real personal consumption expenditures moved higher in February and March. Increased purchases of new autos and light trucks led the February and March advances. Outlays in March also benefited from a bounceback in spending for natural gas and electricity; they had fallen below trend in January and February. Excluding spending for motor vehicles and for energy services, consumption rose 0.8 percent in February and was little changed in March. Expenditures on nonenergy services posted

PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1990	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.
Total personal income	20.5	15.2	.9	-17.9	8.8	11.7
Wages and salaries	10.9	2.1	-3.2	-13.6	-.2	4.2
Private	8.2	-.2	-7.2	-20.1	-3.2	1.8
Other labor income	1.3	1.0	1.0	1.0	1.0	1.0
Proprietors' income	2.1	4.9	.4	-16.4	9.2	8.5
Farm	.5	4.8	.4	-13.3	7.6	6.8
Rent	.7	-.6	-.6	-.8	-.8	-.1
Dividend	.7	.6	-.6	.0	.4	-2.3
Interest	1.6	.5	-2.5	-1.8	-3.2	-2.6
Transfer payments	5.2	6.7	8.9	20.9	2.5	3.2
Less: Personal contributions for social insurance	1.1	.1	2.5	7.1	.0	.3
Less: Personal tax and nontax payments	4.0	1.9	-.6	-2.5	-.9	1.7
Equals: Disposable personal income	16.5	13.2	1.4	-15.4	9.7	10.0
Memo: Real disposable income	-.8	-1.1	-6.6	-24.4	-.4	4.9

REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

	1990	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.
	-Annual rate-		----Monthly rate----			
Personal consumption expenditures	.1	-3.4	-1.4	-1.0	.8	.5
PCE excluding energy services and motor vehicles	.6	-2.1	.8	-.3	.8	.0
Durable goods	-1.8	-12.3	-10.8	-4.4	3.7	1.3
Excluding motor vehicles	-1.1	-5.8	-.7	-.2	2.0	-.3
Nondurable goods	-2.4	-6.5	-2.9	-.7	.8	-.3
Excluding gasoline	-2.3	-7.3	-2.3	-.6	1.1	-.6
Services	2.5	1.8	2.6	-.2	-.1	.9
Excluding energy	3.1	1.9	3.8	.0	.5	.4
Memo:						
Personal saving rate (percent)	4.6	4.2	4.1	4.7	4.0	3.7
Real disposable personal income	-.4	-3.5	-1.6	-.8	.0	.2

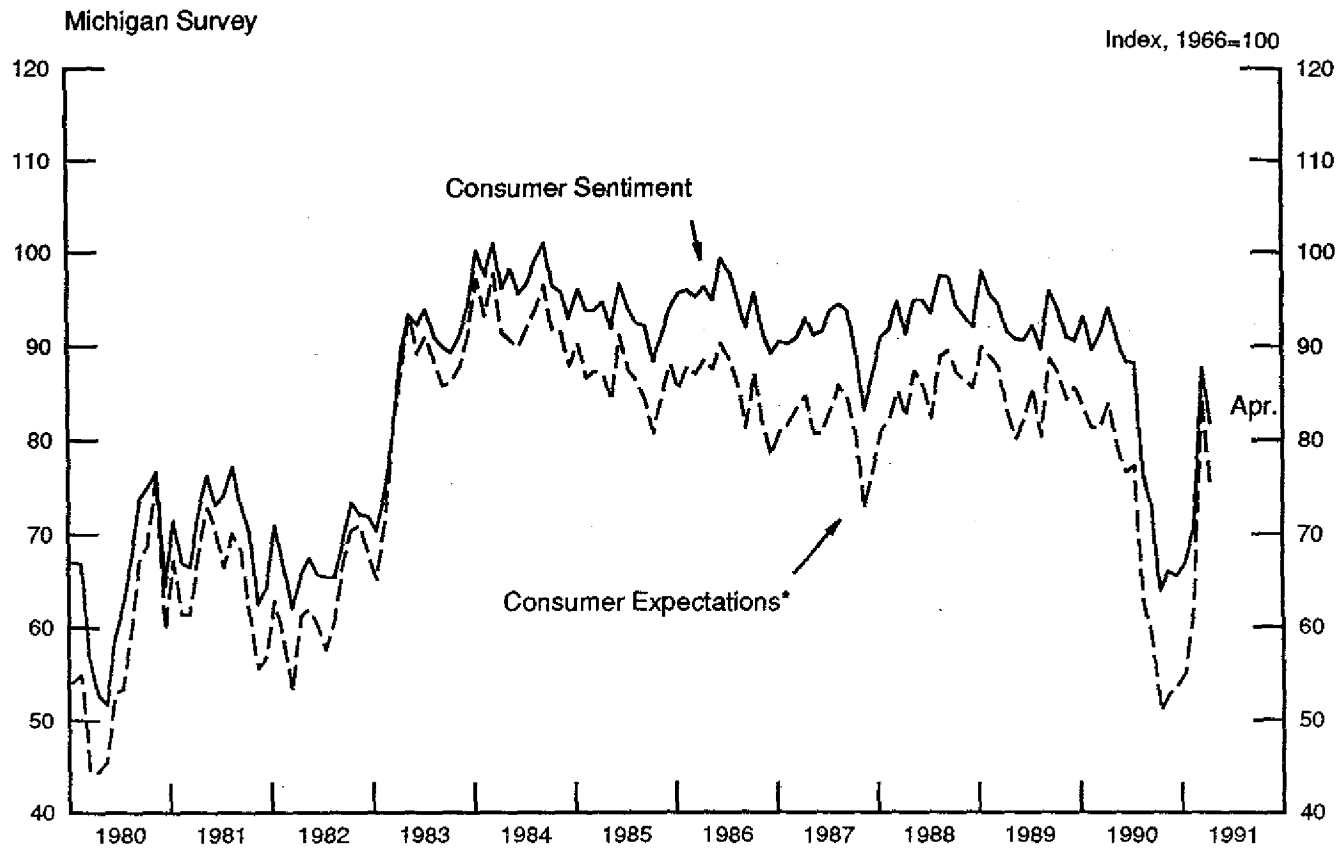
robust gains in both months, while spending for non-auto goods posted a large rise in February before falling a bit in March.

Early indications for April are not encouraging. Sales of new motor vehicles fell back 6 percent in April, and spending generally is not receiving a spur from greater personal income growth. Indeed, the most recent labor market data point to only a small uptick in private wage and salary income in April after a weak first quarter. Moreover, the effects of the recession have depressed nonfarm proprietors' income and dividends. And, declining market interest rates resulted in a sizable dropoff in personal interest income. To some extent, the weakness in nominal income growth has been offset by falling energy prices; indeed, the decline in retail gasoline prices alone added an estimated \$13-1/2 billion (annual rate) to consumers' real purchasing power during the quarter.[1] Nonetheless, with overall consumer prices up at a 3-1/4 percent pace in the first quarter, real disposable income still fell at an annual rate of 1.6 percent.

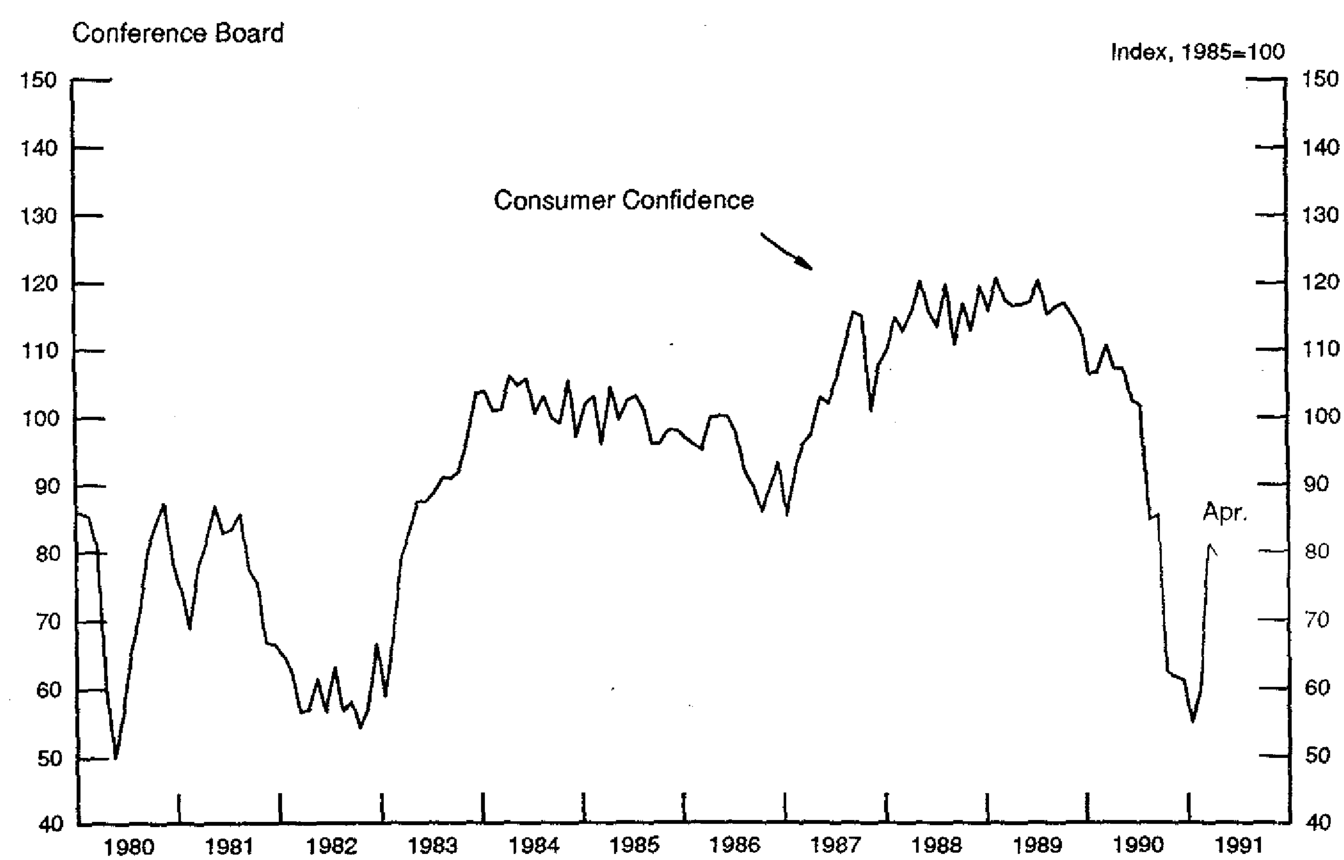
The decline in consumption during the recession has been somewhat less than the drop in disposable income, and the personal saving rate has fallen, especially as spending firmed towards the end of the first quarter. The stock market rally has bolstered household wealth, possibly encouraging some additional consumption relative to the decidedly weak income growth. Moreover, a rebound in consumer sentiment from the low levels that had prevailed since Iraq's invasion of Kuwait in August may be boosting consumption recently by reducing precautionary saving. Sentiment was down

1. That is, if real gasoline outlays in the first quarter were valued at fourth-quarter prices, nominal gasoline expenditures would have been \$13.5 billion higher.

Indexes of Consumer Attitudes



*Equally weighted average of expected personal financial conditions and expected overall business conditions, 12 months and 5 years ahead



slightly in April from its March level, but remained substantially above the February level.

Motor Vehicles

Total sales of autos and light trucks (domestic and imported) averaged 11-3/4 million units at an annual rate in April, down from the 12-1/2 million unit pace posted in March. Sales of domestic automobiles were especially weak, falling to a 5-1/2 million unit annual pace.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate; BEA seasonals)

		1990		1991	1991		
	1990	Q3	Q4	Q1	Feb.	Mar.	Apr.
Autos and light trucks	13.86	14.18	12.95	11.79	11.93	12.49	11.72
Autos	9.50	9.72	8.98	8.22	8.33	8.73	7.93
Light trucks	4.36	4.47	3.97	3.57	3.60	3.76	3.79
Domestic total[2]	10.84	11.30	10.18	9.25	9.36	9.63	9.00
Autos	6.90	7.21	6.59	5.99	6.10	6.18	5.50
Light trucks	3.95	4.09	3.59	3.26	3.26	3.45	3.50
Import total	3.01	2.88	2.76	2.54	2.57	2.86	2.72
Autos	2.60	2.51	2.38	2.23	2.23	2.55	2.42
Light trucks	.41	.38	.38	.31	.34	.32	.30

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.
1. Components may not add to totals due to rounding.
2. Includes vehicles produced in Canada and Mexico and vehicles made in U.S. plants of foreign manufacturers.

Motor vehicle sales thus far this year are running well short of their 1990 pace--a year that was lackluster by recent standards.[2] No doubt, the poor sales pace of recent months can be traced in large part to the general weakness in the economy and, in particular, to declines in real disposable

2. During the expansion of the 1980s, sales of motor vehicles peaked in 1986 with sales of 16 million units. Between 1984 and 1989, sales averaged 15 million units at an annual rate.

income. However, higher prices also may have contributed to poor sales. The CPI for new cars was up at a 6-1/4 percent annual rate in the first half of the 1991 model year, and car manufacturers pared back sales incentives to consumers over the same period. Automakers have provided daily rental car companies with more attractive fleet repurchase agreements than were available on 1990 models. Since many of these rental cars come into the market before long as "nearly news," the net effect on manufacturers' car sales over time probably is negligible; some analysts have suggested that one advantage, if there is any, is in terms of the ability of companies to enhance revenues through segmentation of those buyers who have relatively inelastic demands for new cars from those who are looking for a bargain and are willing to buy a slightly used vehicle. The manufacturers are souring on this tactic, however; they are cutting back on special deals with the rental car companies and apparently are moving to reverse a portion of earlier consumer price hikes by expanding their incentive programs. Ford recently has switched back from dealer rebates to consumer rebates, which tend to yield better bargains for the consumer, and General Motors has announced plans to sweeten its dealers' carryover allowance for 1991 model cars.

With production of domestic cars averaging only 5 million units over the first four months of this year, dealers' inventories of new cars fell from 1-1/4 million units at the end of December to 1 million units at the end of April, when they amounted to about a 58-day supply. Inventories of light trucks fell sharply in recent months from about a 100-day supply at the turn of the year to a 74-day supply at the end of April--a relatively low level historically.

Housing Markets

Total housing starts fell back in March to an annual rate of 900,000 units, but several other indicators suggest that a modest pickup in construction is under way. Total issuance of building permits (which are measured with less statistical error than starts) continued to increase in March. And, in the single-family sector, sales of both new and existing homes held firm, after a large increase in February. Furthermore, survey evidence through April showed a sharp improvement in builders' perceptions of new home sales and in consumer attitudes toward homebuying (chart).

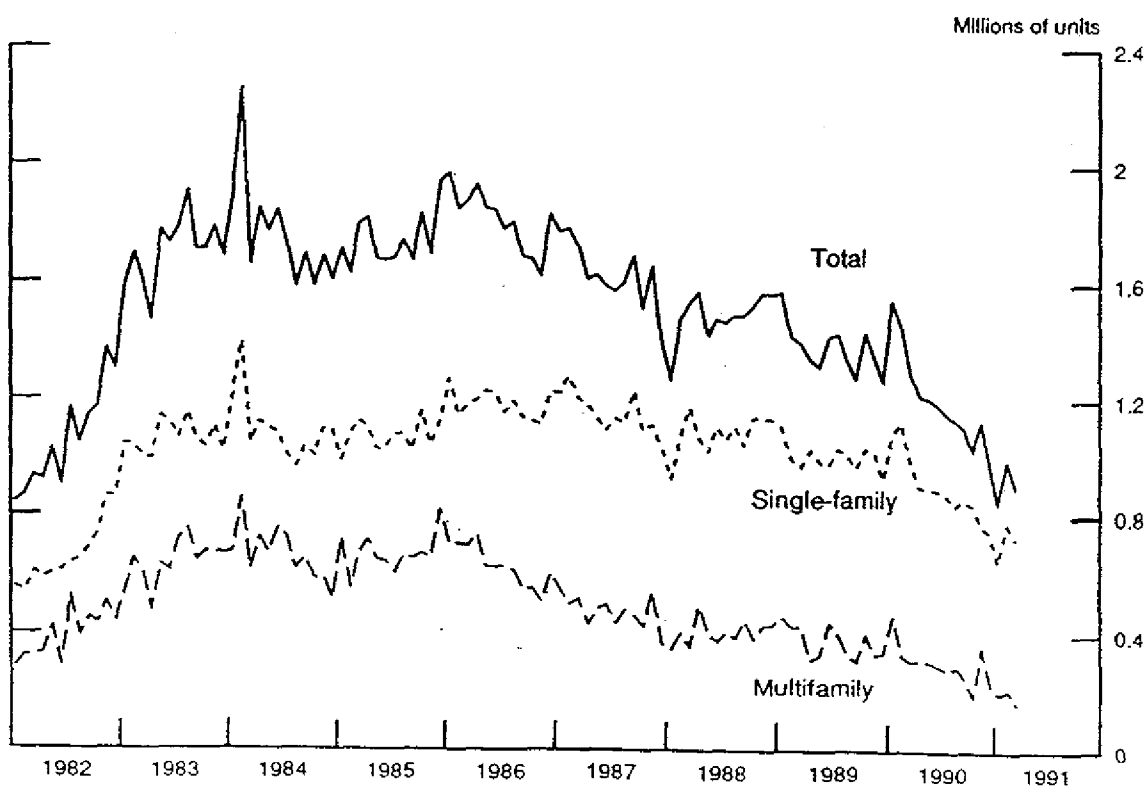
Single-family starts retraced part of the February rise, while permit issuance was little changed. Relative to the volume of permits issued and the pace of new home sales in March, single-family starts were 50,000 to 60,000 units lower than one might expect. Historically, new home sales, which rose 20 percent between January and March, have a very high contemporaneous correlation with single-family starts. Moreover, new home prices rose in the first quarter, consistent with some strengthening in the demand for single-family homes (chart).

The drag from excess inventories of unsold homes may be easing a bit. In particular, the stock of new homes for sale declined about 19 percent from its high in mid-1989 to 308,000 units at the end of March. Moreover, the current level of the months-supply ratio is relatively low by the standards of the three most recent business cycles (chart). All told, the current overhang of unsold single-family homes does not appear to present any unusual impediment to a recovery in construction activity in coming months. However, it is a distinct possibility that the response of starts to sales will be dulled somewhat in this cycle by the hesitancy of lenders

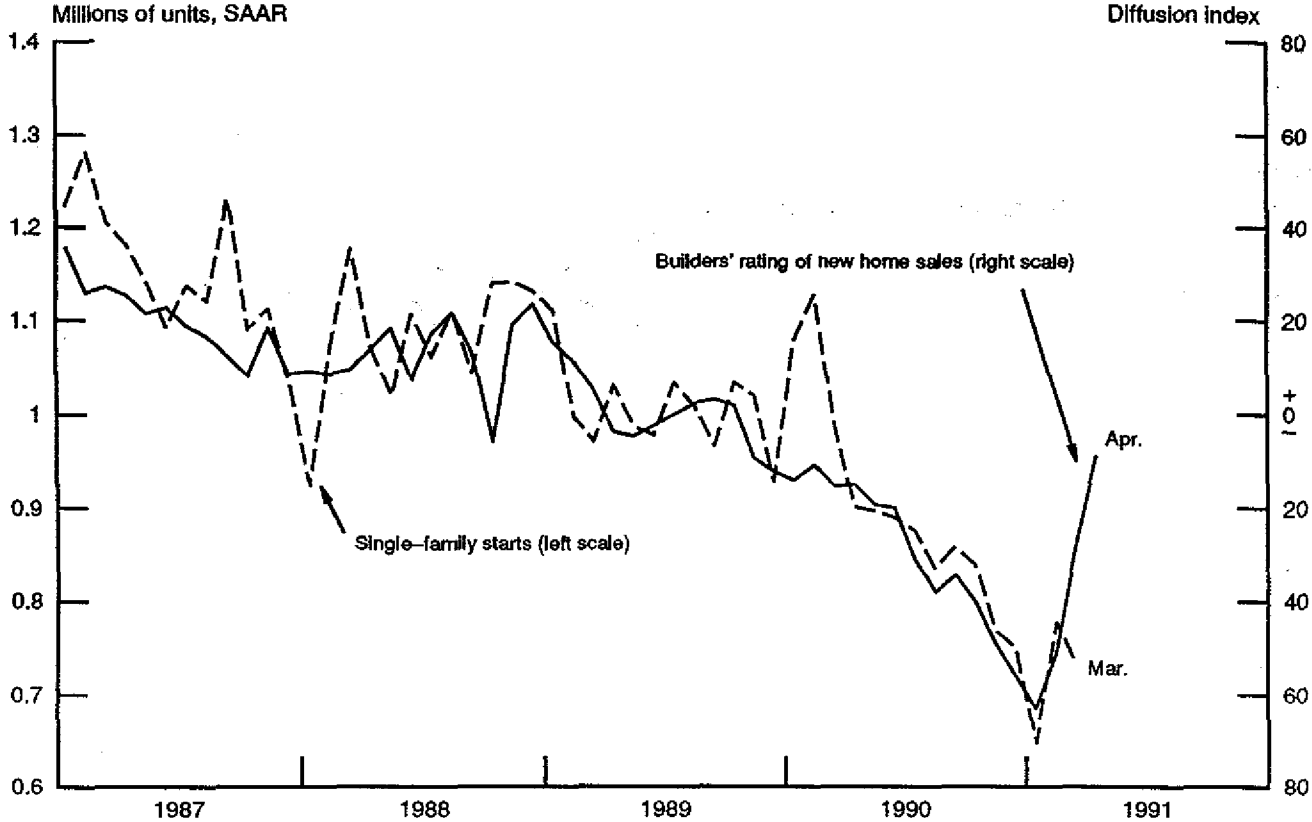
PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates; millions of units)

	1990 Annual	1990 Q3	1990 Q4	1991 Q1[r]	1991 Jan.	1991 Feb.[r]	1991 Mar.[p]
All units							
Permits	1.10	1.04	.89	.85	.80	.86	.88
Starts	1.19	1.13	1.04	.91	.85	.99	.90
Single-family units							
Permits	.80	.76	.68	.66	.61	.69	.68
Starts	.90	.86	.79	.72	.65	.78	.73
Sales							
New homes	.53	.52	.47	.46	.41	.49	.49
Existing homes	3.29	3.30	3.12	3.08	2.90	3.16	3.18
Multifamily units							
Permits	.31	.28	.22	.19	.19	.17	.20
Starts	.30	.28	.26	.20	.20	.22	.17
Vacancy rate[1]							
Rental units	9.1	9.5	9.0	9.4	n.a.	n.a.	n.a.
Owned units	7.2	6.6	6.6	7.6	n.a.	n.a.	n.a.

1. Percent. Owned units consist mainly of condominiums. All vacancy rate data are revised.
p Preliminary. r Revised estimates. n.a. Not available.

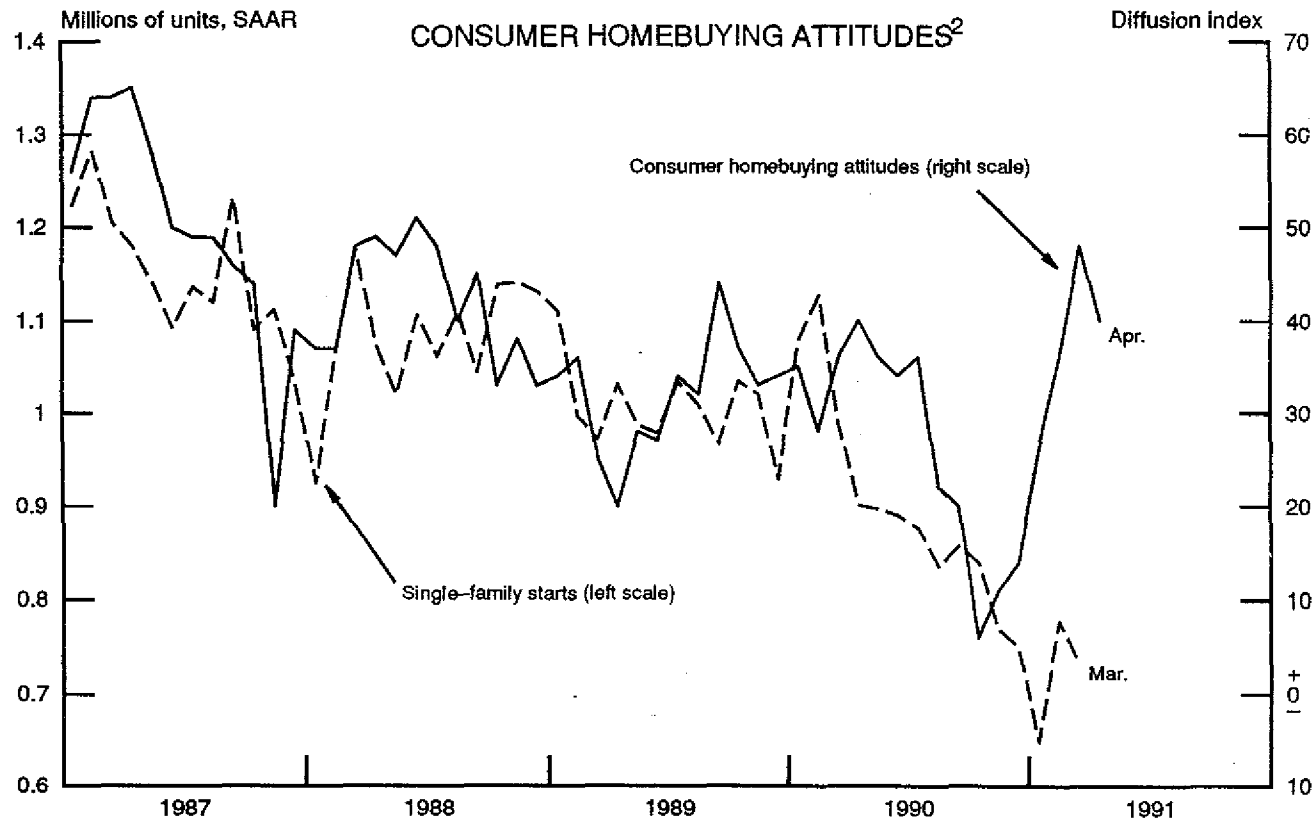


BUILDERS' RATING OF NEW HOME SALES[1]



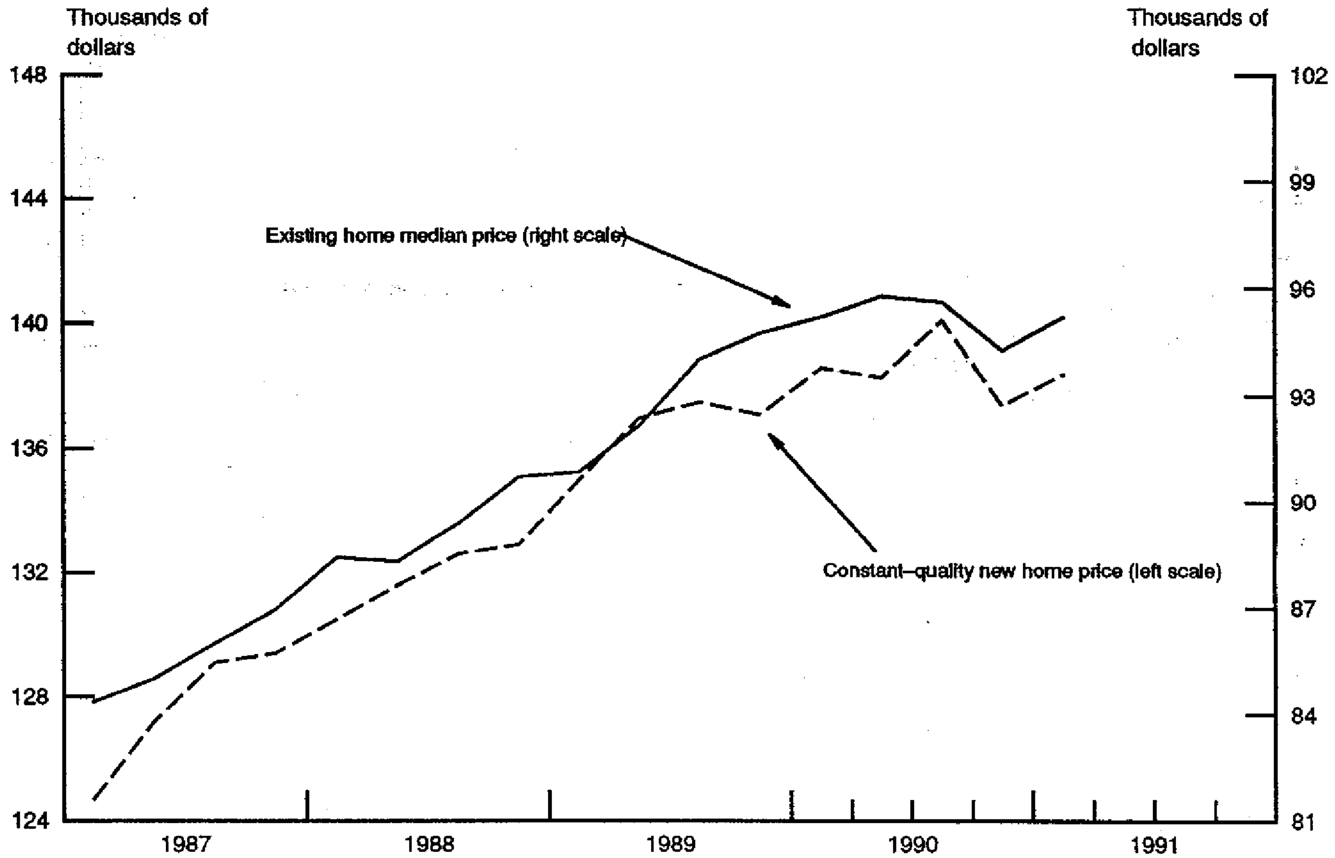
1 The index is calculated from the National Association of Homebuilders data as the number of respondents rating current sales as good to excellent minus the proportion rating them as poor.

CONSUMER HOMEBUYING ATTITUDES[2]

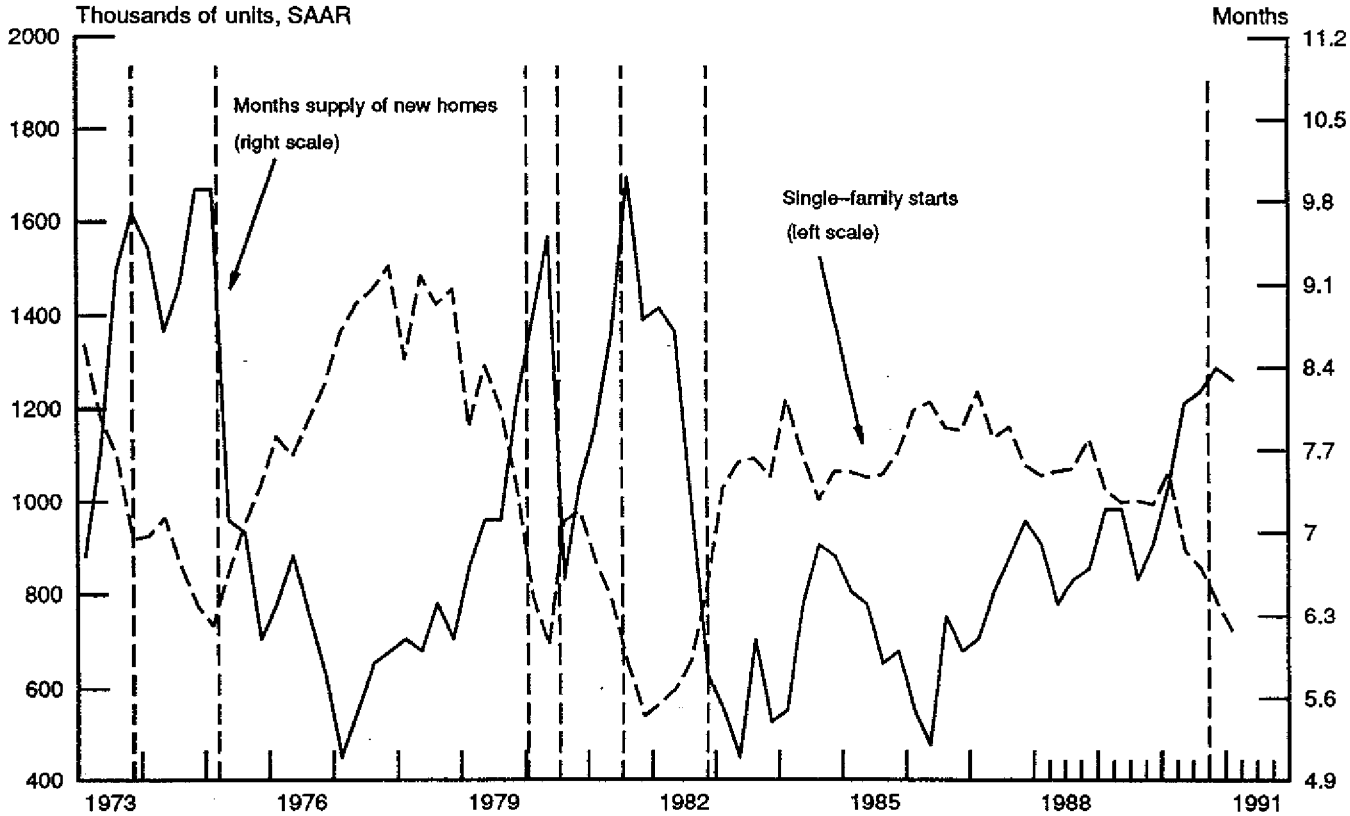


2 The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

EXISTING HOME MEDIAN PRICE (SA) AND CONSTANT–QUALITY NEW HOME PRICE (NSA)



MONTHS' SUPPLY OF NEW HOMES AND SINGLE–FAMILY HOUSING STARTS



to finance land acquisition and development and speculative building generally.

In the multifamily sector, starts dropped 21 percent in March to a 170,000 unit annual rate, a new low for the series, which began in January 1959. Building in this sector continues to be depressed by a serious oversupply of rental and condominium units in some locales. The national vacancy rate for multifamily rental units was 9.4 percent in the first quarter, a reading identical to its level both one and two years ago.

Business Fixed Investment

Real business fixed investment tumbled 14-1/2 percent at an annual rate in the first quarter, after remaining flat in the fourth quarter; purchases of both equipment and structures fell back substantially. Contracts and orders point to further weakness in the near term.

The plunge in equipment outlays in the first quarter followed a moderate gain in the fourth quarter of last year.[3] Spending for computers, motor vehicles, and most types of industrial equipment posted especially sharp declines last quarter. In contrast, outlays for aircraft soared, perhaps reflecting a pickup of shipments of MD-11 aircraft (a newly introduced widebodied airplane) by McDonnell-Douglas.

The recent data for orders received by domestic manufacturers point to further declines in spending for most types of equipment in the current quarter. Excluding the aircraft group, where lead times are extremely long, bookings for nondefense capital goods fell 6.3 percent in March (not at an

3. Revisions to shipments of nondefense capital goods for February and March--released after BEA's advance GNP estimate--imply about a $2-1/2 billion downward revision to PDE in the first quarter. All else equal, these data would imply a decline in real PDE of 18 percent at an annual rate.

BUSINESS CAPITAL SPENDING INDICATORS
(Percentage change from preceding comparable periods;
based on seasonally adjusted data)

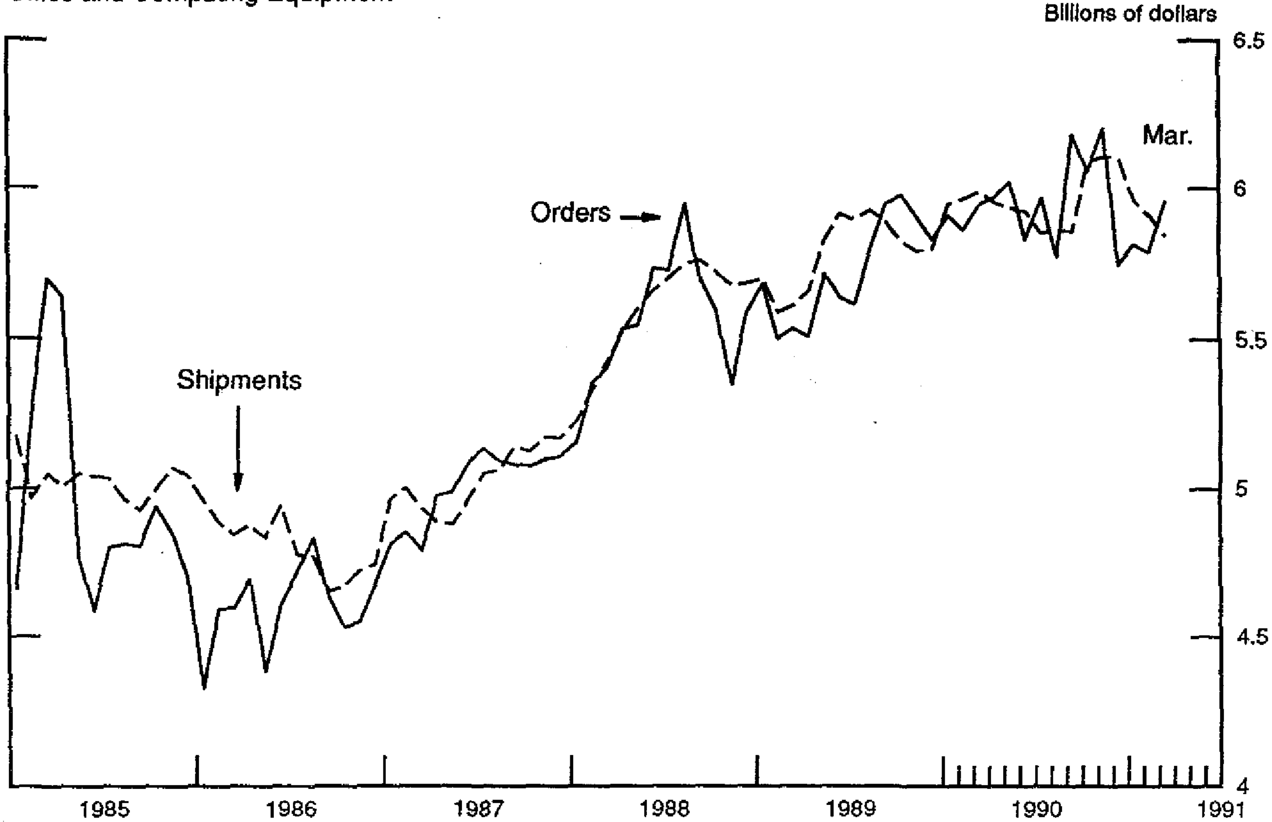
	1990		1991	1991		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Shipments of nondefense capital goods	1.2	1.4	-2.4	-3.1	1.6	-3.1
Complete aircraft	16.2	-3.2	4.4	5.4	-1.6	-15.6
Excluding aircraft and parts	-0.9	2.2	-3.5	-1.6	-1.3	0.2
Office and computing	-1.1	4.2	-4.2	-0.2	-3.4	0.5
All other categories	-0.8	1.6	-3.3	-2.0	-0.6	0.1
Weighted PDE shipments[1]	-0.2	2.0	-4.6	-2.3	-1.1	-1.1
Sales of heavy-weight trucks	6.4	-10.8	-9.1	-11.5	3.4	-0.4
Orders of nondefense capital goods	4.5	5.3	-6.5	-11.9	-0.6	-5.0
Excluding aircraft and parts	-0.2	0.8	-3.9	0.4	-3.6	-6.3
Office and computing	6.0	-7.0	3.7	15.3	-7.6	2.5
All other categories	-1.9	3.3	-6.0	-3.4	-2.4	-8.9
Weighted PDE orders[1]	-1.4	1.4	-4.4	-0.1	-2.2	-6.2
Nonresidential structures						
Construction put-in-place	1.1	-5.5	-1.7	-0.0	1.4	-3.3
Office	1.6	-8.4	-4.0	-1.8	3.0	-6.5
Other commercial	-2.5	-9.3	-7.4	-1.9	-3.8	-5.1
Public utilities	0.0	1.4	1.2	2.0	4.7	-2.0
Industrial	2.3	-6.0	4.7	0.5	1.4	-2.1
All other	4.5	-6.0	-2.4	0.4	1.0	-1.5
Rotary drilling rigs in use	-2.8	-2.8	0.9	2.4	1.7	-3.5
Footage drilled[2]	10.6	3.6	n.a.	-1.6	-13.9	n.a.

Note: The Census M-3 report does not provide information on complete aircraft orders.
1. Computed as the weighted sum of 25 individual equipment series (excluding aircraft) from the Census M-3 report with weights equal to the fraction of final business spending for each type of equipment.
2. From Department of Energy. Not seasonally adjusted.
n.a. Not available.

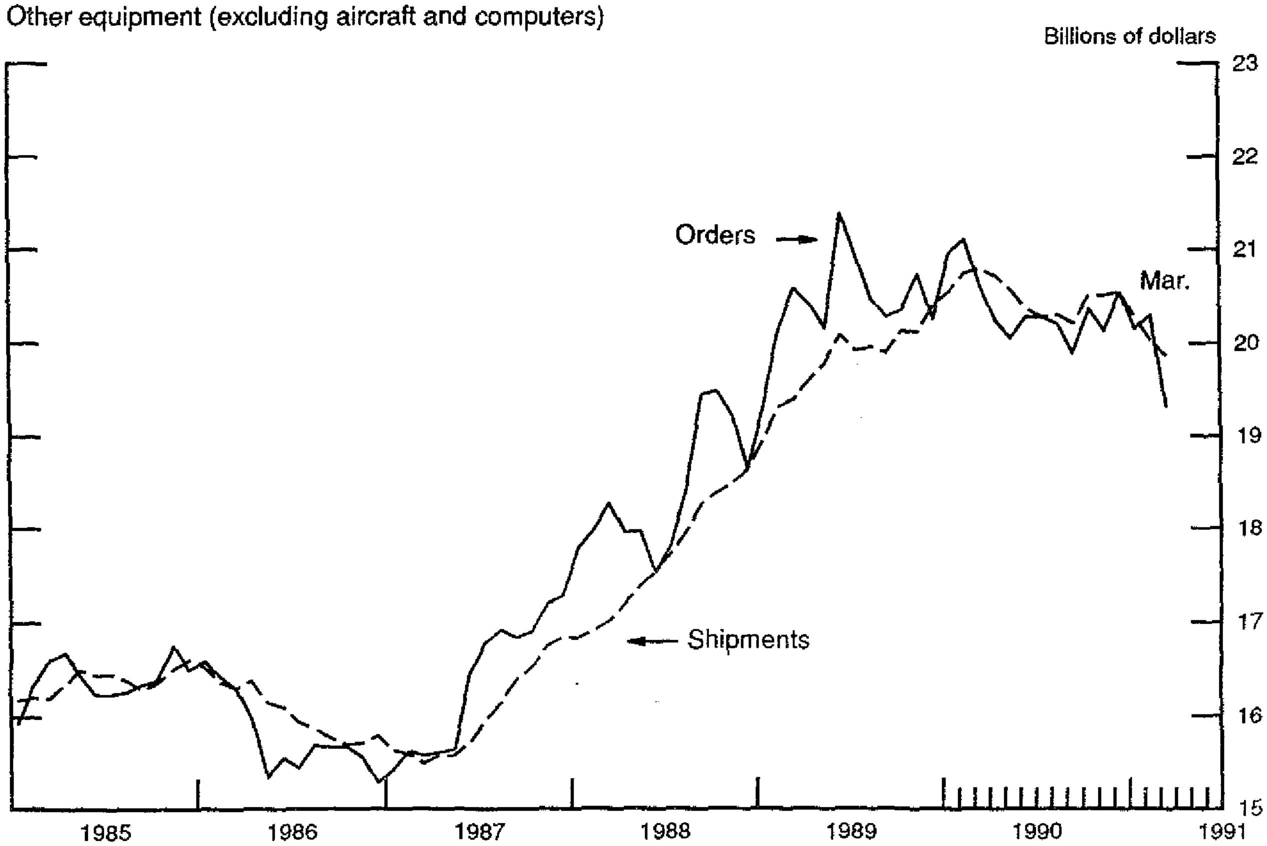
Recent Data on Orders and Shipments [1]

(Excluding motor vehicles and parts)

Office and Computing Equipment



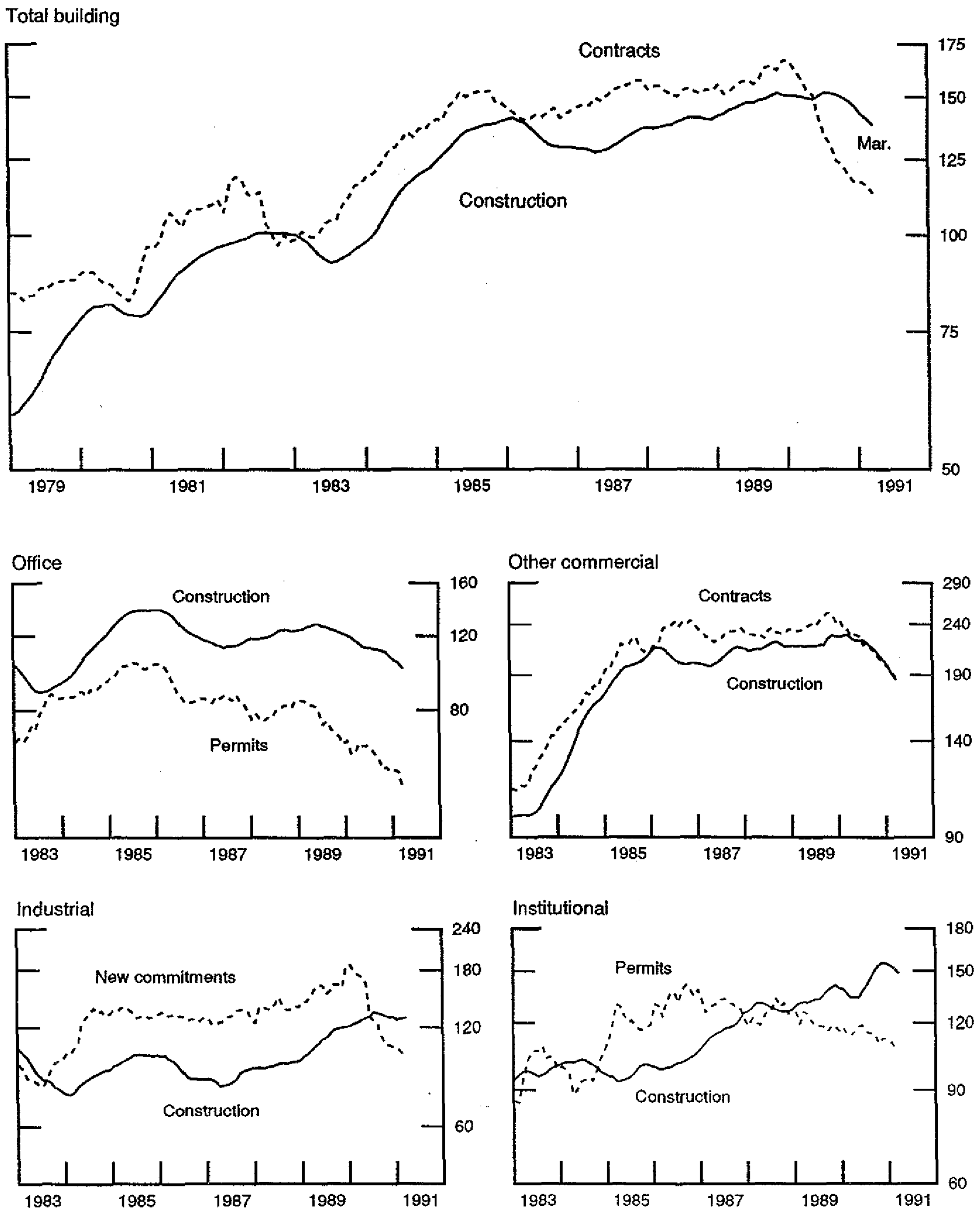
Other equipment (excluding aircraft and computers)



1. Three month moving average used for all series shown.

Nonresidential Construction and Selected Indicators[1]

(Dec. 1982 = 100, ratio scale)



1. Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public. New commitments are the sum of permits and contracts.

annual rate), pulled down by large declines in the communication and the search and navigation categories. For the first quarter as a whole, orders outside of aircraft were down nearly 4 percent from the fourth-quarter average, with sizable declines posted for most types of equipment. Bookings for computers, however, have held up fairly well in recent months after a fourth-quarter decline, and they point to a small upturn in outlays in the current quarter (chart); much of the recent strength apparently is in the workstation segment of the market.

Expenditures for nonresidential structures fell 11-1/4 percent at an annual rate in the first quarter, after a drop of more than 18 percent in the previous quarter. In the first quarter, spending was down notably for office, other commercial, and institutional construction. In contrast, industrial construction rose, but it remained below its peak in the third quarter of last year. Reflecting lower prices for crude oil, outlays for drilling and mining also posted a large decline in the first quarter, and in the first four weeks of April, the Baker-Hughes rig count fell to a level 5 percent below its first-quarter average.

Forward-looking indicators for nonresidential construction continue to paint a bleak picture. Permits for office construction plummeted in March (chart), and vacancy rates remain high. The Coldwell-Banker metropolitan office vacancy rate was 19.5 percent at the end of the first quarter, a bit below its year-earlier level of 19.9 percent. Indicators for other sectors, particularly industrial and non-office commercial, also point to weak construction activity in the near term.

In assessing the recent indicators of BFI, it is important to note that movements in investment typically lag fluctuations in real GNP by a quarter or two. For example, in the seven cyclical upturns since 1950, real business investment has, on average, turned up between one and two quarters after real GNP (table).[4] Equipment spending typically turns up after about one quarter, with similar lags for the major categories of equipment. Spending for nonresidential structures turns up, on average, two quarters after the cyclical trough, although there is greater volatility in the response time; average lags range from one quarter for non-office commercial building to five quarters for industrial construction.

AVERAGE LAG FROM UPTURN IN REAL GNP TO PICKUP IN REAL INVESTMENT
(Following recessions since 1950)

Category	Average lag (quarters)	Standard deviation (quarters)
Business fixed investment	1.3	1.0
Producers' durable equipment	1.0	.6
Information processing	.9	1.1
Industrial	1.6	1.1
Transportation	1.0	.8
Nonresidential structures*	2.3	1.4
Industrial	4.8	2.3
Office	3.3	2.5
Non-office commercial	1.0	1.0

* Data for industrial construction begin in 1958, while data for office and non-office commercial construction begin in 1972.

Inventories

Business inventory developments were mixed in the first quarter. Despite a continued decline in overall stocks, plummeting sales and poor

4. Although real equipment purchases typically lag the turn in economic activity, orders for nondefense capital goods (excluding aircraft) are more nearly contemporaneous. In three of the four recessions since 1970, these orders have bottomed out in the same quarter as real GNP; in the 1982 recession, the volatility of the orders data makes it difficult to identify a trough.

demand prospects left many merchants and manufacturers with uncomfortable inventory positions and prompted caution in orders and production.

In March, factory stocks were reduced at an annual rate of $26 billion in current-cost terms, after little change over the preceding two months. A substantial portion of the March decumulation occurred in durable goods industries, in particular in industrial machinery and equipment, fabricated metal products, and motor vehicles and parts; by and large, these are industries that have experienced declining orders and shipments in recent months. The sharp inventory drawdown coincided with a plunge in factory shipments, and the inventory-shipments ratio for manufacturing moved up to 1.69 months in March, its highest level in recent years. At present, manufacturers' inventory imbalances appear to be largely limited to producer goods--industrial machinery and equipment, and basic production materials such as primary metals (especially steel), chemicals, and rubber and plastics.

In retail and wholesale trade, sluggish sales led to some unintended inventory buildup in January, especially at the wholesale level. However, much of the January runup was reversed over the latter part of the first quarter, reflecting improved retail sales and reduced supply of merchandise from both domestic and foreign sources. In the retail sector, for the broad range of stores that carry largely discretionary consumption goods (general merchandise, apparel, and furniture and appliance), inventories at the end of February were little changed from the level posted at the end of third quarter of last year. With a sharp, 4.3 percent gain in sales in February, the inventory-sales ratio for stores in this category fell sharply to 2.41 months--near the low end of the range observed over the past year.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates;
based on seasonally adjusted data)

	1990		1991	1991		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis:						
Total	58.8	-.8	n.a.	54.0	-31.1	n.a.
Total excluding retail auto	39.7	9.1	n.a.	47.9	-8.4	n.a.
Manufacturing	26.5	-8.7	-10.1	-5.2	.9	-26.2
Wholesale	9.2	10.5	8.0	41.1	-5.2	-11.9
Retail	23.1	-2.6	n.a.	18.1	-26.9	n.a.
Automotive	19.0	-9.9	n.a.	6.1	-22.7	n.a.
Excluding auto	4.1	7.3	n.a.	12.0	-4.2	n.a.
Constant-dollar basis:						
Total	5.1	-21.8	n.a.	36.0	-22.9	n.a.
Total excluding retail auto	1.9	-11.4	n.a.	46.7	-1.9	n.a.
Manufacturing	3.7	-18.3	n.a.	-.9	1.0	n.a.
Wholesale	.6	5.8	n.a.	37.7	1.6	n.a.
Retail	.8	-9.3	n.a.	-.9	-25.5	n.a.
Automotive	3.2	-10.4	n.a.	-10.8	-21.0	n.a.
Excluding auto	-2.4	1.1	n.a.	9.9	-4.5	n.a.

INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

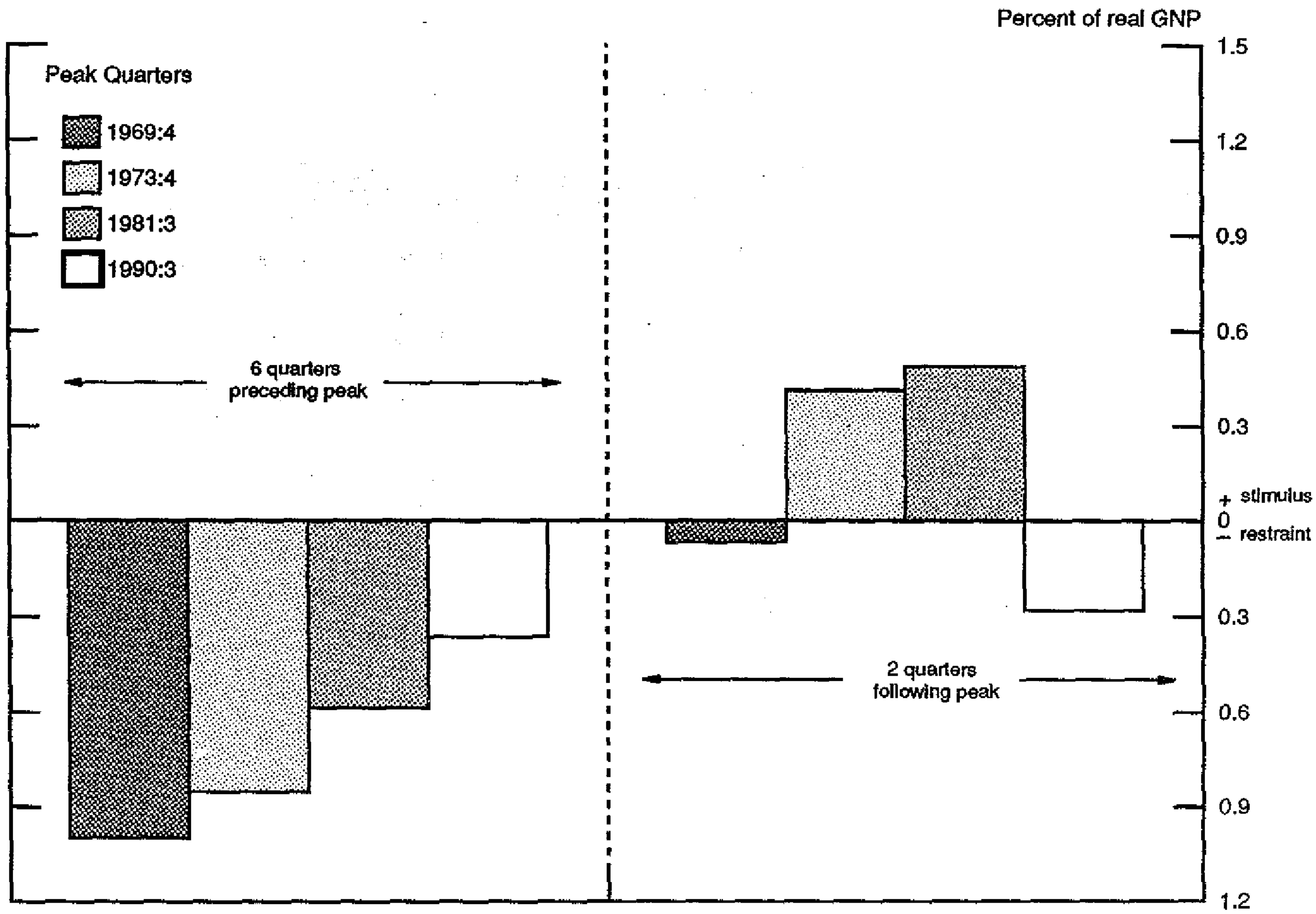
	Range in preceding 12 months:[2]		1990		1991	1991		
	Low	High	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis:								
Total	1.48	1.58	1.51	1.52	n.a.	1.58	1.57	n.a.
Total excluding retail auto	1.45	1.54	1.47	1.49	n.a.	1.54	1.54	n.a.
Manufacturing	1.54	1.67	1.58	1.59	1.66	1.66	1.67	1.69
Wholesale	1.26	1.38	1.28	1.31	1.38	1.37	1.38	1.39
Retail	1.58	1.65	1.61	1.60	n.a.	1.65	1.60	n.a.
Automotive	1.90	2.18	2.07	2.01	n.a.	2.18	2.02	n.a.
Excluding auto	1.47	1.52	1.48	1.49	n.a.	1.52	1.50	n.a.
Constant-dollar basis:								
Total	1.42	1.51	1.43	1.46	n.a.	1.51	1.49	n.a.
Total excluding retail auto	1.39	1.49	1.41	1.44	n.a.	1.49	1.48	n.a.
Manufacturing	1.44	1.53	1.46	1.48	n.a.	1.53	1.53	n.a.
Wholesale	1.26	1.39	1.28	1.34	n.a.	1.39	1.38	n.a.
Retail	1.54	1.60	1.55	1.55	n.a.	1.60	1.55	n.a.
Automotive	1.75	1.89	1.85	1.77	n.a.	1.89	1.75	n.a.
Excluding auto	1.46	1.53	1.47	1.50	n.a.	1.53	1.50	n.a.

1. Ratio of end of period inventories to average monthly sales for the period.
2. Highs and lows are specific to each series and are not necessarily coincidental. Range is for the 12-month period preceding the latest month for which data are available.

SELECTED INVENTORY-SALES RATIOS
(Months' supply, based on seasonally adjusted Census data at current cost)

	Cyclical reference points		Range		1991	
	1982 High	1983-84 Low	Feb. 90 - Jan. 91		Feb.	March
Manufacturing and trade	1.69	1.48	1.48	1.58	1.57	n.a.
Manufacturing	1.99	1.67	1.54	1.66	1.67	1.69
Primary metals	3.33	2.02	1.85	2.09	2.19	2.28
Nonelectrical machinery	3.49	2.60	2.13	2.28	2.31	2.32
Electrical machinery	2.53	2.08	1.80	1.89	1.80	1.80
Transportation equipment	2.70	1.85	2.07	2.74	2.54	2.69
Motor vehicles	1.20	.69	.56	.96	.84	.88
Aircraft	5.34	4.43	4.93	5.71	4.91	5.44
Textile	1.84	1.53	1.66	1.82	1.82	1.77
Petroleum	1.11	.93	.69	.89	.84	.86
Chemicals	1.73	1.44	1.27	1.35	1.38	1.42
Rubber and plastics	1.72	1.36	1.33	1.62	1.62	1.61
Home goods & apparel	2.14	1.76	1.84	2.03	1.88	1.86
Merchant wholesalers	1.39	1.18	1.26	1.37	1.38	1.39
Durable goods	2.26	1.69	1.68	1.90	1.90	1.90
Motor vehicles	2.02	1.30	1.52	1.88	1.91	1.87
Machinery	2.98	2.33	2.14	2.47	2.47	2.50
Nondurable goods	.81	.75	.84	.89	.90	.91
Retail trade	1.53	1.42	1.56	1.65	1.60	n.a.
Automotive dealers	1.92	1.48	1.89	2.18	2.02	n.a.
Retail ex. autos	1.45	1.40	1.47	1.52	1.50	n.a.
General merchandise	2.56	2.39	2.43	2.56	2.46	n.a.
Apparel	2.79	2.50	2.44	2.65	2.45	n.a.
G.A.F.	2.60	2.42	2.38	2.53	2.41	n.a.
Memo:						
Nondefense capital goods (manufacturing)	3.83	3.04	2.55	2.69	2.60	2.69

CUMULATIVE FISCAL IMPETUS AROUND BUSINESS CYCLE PEAKS



* Fiscal impetus is the weighted difference between discretionary changes in spending and in taxes.

From a longer perspective, however, the GAF stock-sales ratio looks far from lean, and probably is one indication of the excess capacity existing in retailing. The industry consolidation underway may contribute to a lowering in the inventory-sales ratio over time.

The Federal Government

Federal fiscal policy, as measured by the staff's indicator of discretionary fiscal impetus, has remained restrictive since the cyclical peak in the third quarter. This fiscal stance contrasts with recent recessions, when policy generally turned stimulative within the first two quarters following the peak. The restraint largely reflects the spending cuts and tax increases embodied in last fall's budget agreement.

BEA's advance estimate of real federal purchases, excluding CCC, fell at a 3 percent annual rate in the first quarter. Real defense purchases declined at a 1 percent pace as increases for military personnel and installation support were offset by decreased purchases of petroleum products. Nondefense purchases, excluding those of the CCC, fell at a 9 percent rate, reflecting the Strategic Petroleum Reserve's sale of $2 billion of oil; excluding SPR activity, nondefense purchases were flat.

On a unified budget basis, the federal government recorded a $65 billion budget deficit in the first quarter, bringing the deficit for the first half of the 1991 fiscal year to $152 billion, about the same as in the first half of the 1990 fiscal year. Over the first half of this fiscal year, the deficit-increasing influences of the economic downturn have been offset by the savings in the 1990 budget agreement, as well as by foreign contributions for Operation Desert Storm, a slowdown in deposit insurance outlays, and lower interest rates.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Billions of dollars,
except where otherwise noted)

	October-March			
	FY1990	FY1991	Net change	Percent change
Outlays	609.0	634.3	25.3	4.1
National defense	150.1	130.1	-20.0	-13.4
ex-DCA	150.1	157.0	6.9	4.6
Net interest	90.3	96.2	5.9	6.6
Social Security	120.3	130.2	9.9	8.2
Medicare and health	73.9	81.8	7.9	10.7
Deposit insurance	13.4	16.4	3.0	22.6
Income security	76.1	87.1	11.0	14.5
Other	84.9	92.5	7.5	8.8
Receipts	458.2	482.6	24.5	5.3
Personal income taxes	204.9	204.4	-.5	-.2
Social insurance contributions	171.8	188.3	16.5	9.6
Corporate income taxes	39.0	44.6	5.6	14.3
Excise taxes	16.3	18.6	2.3	14.1
Other	26.2	26.7	.5	1.9
Deficit	150.8	151.6	.8	.5

CASH AND IN-KIND CONTRIBUTIONS FOR OPERATION DESERT SHIELD/STORM
(Billions of dollars)

		Received			Future
Country	Commitments	Cash[1]	In-kind[2]	Total	receipts
Saudi Arabia	16.8	4.5	3.1	7.6	9.2
Kuwait	16.0	9.3	.0	9.3	6.7
Japan	10.7	8.8	.7	9.4	1.3
Germany	6.6	5.8	.8	6.6	.0
United Arab Emirates	4.0	3.6	.2	3.8	.2
Korea	.4	.1	.0	.2	.2
Total	54.6	32.0	4.8	36.8	17.8

1 Through April 30, 1991.
2. Through March 31, 1991.

Net receipts totaled $483 billion in the first half of the 1991 fiscal year, about 5 percent above the year-earlier total. Personal income tax collections were little changed from a year earlier, and daily data for April and early May indicate that nonwithheld taxes are running about $5 billion below last year's pace--consistent with the weakness in nonwage income shown by the personal income data.[5] In contrast, social insurance taxes and corporate income taxes appear stronger than a year earlier. Excise taxes, only 4 percent of total receipts, were significantly higher than a year earlier, reflecting the increased tax rates enacted in last fall's budget agreement.

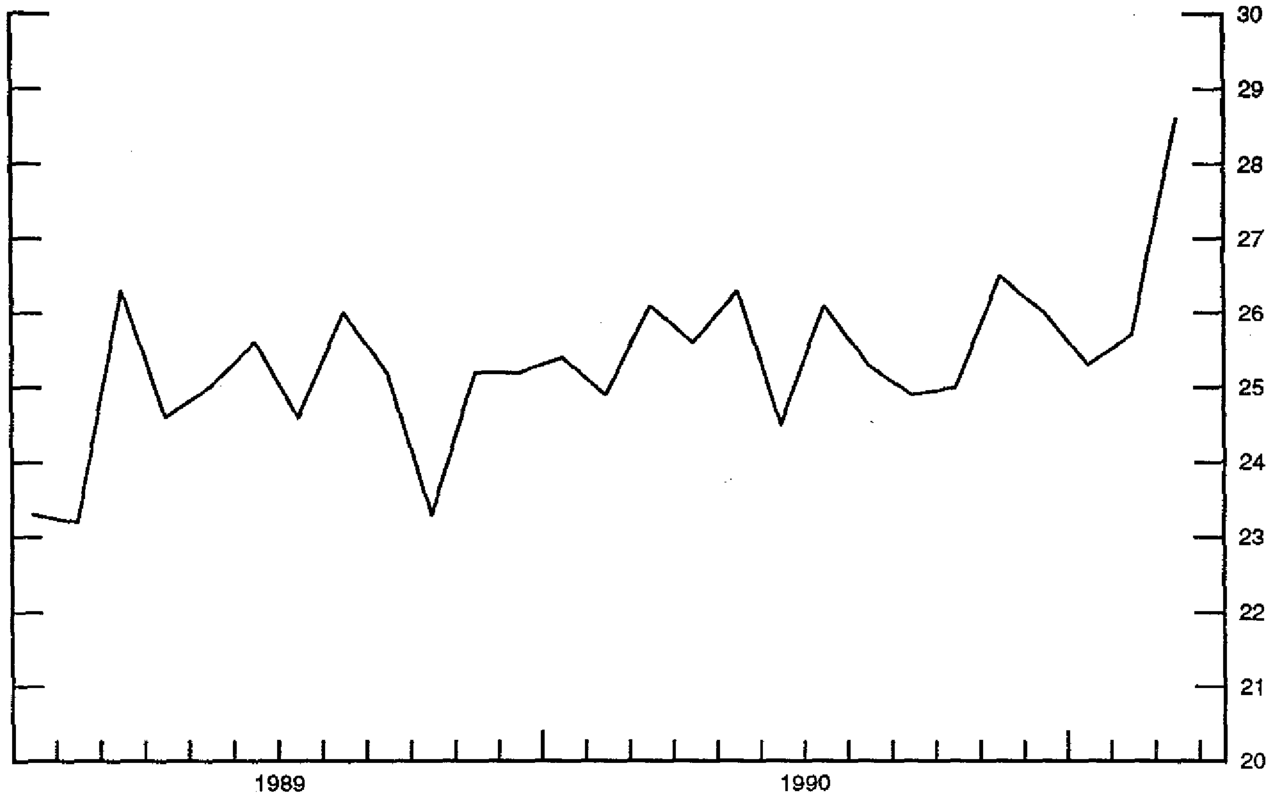
Defense outlays have changed little, on balance, over the past year-and-a-half, apart from a jump in March associated with a bulge in Desert Shield procurement. So far in this fiscal year, the costs of the unplanned military action have about equalled the planned reduction in baseline spending. However, after the $27 billion of foreign financial contributions for Operation Desert Storm are netted against gross spending, national defense outlays for the first half of the fiscal year were $20 billion below a year earlier.[6]

Net deposit insurance outlays were only $2 billion in the first quarter, after net spending of $14 billion in the fourth quarter. Relative to the administration's February estimate that deposit insurance outlays would total $111 billion for FY1991 as a whole, the shortfall appears

5. Nonwithheld taxes in April and May represent final payments on 1990 personal income tax liability and 1990 self-employment tax liability as well as the first quarterly payment on estimated liabilities for 1991.

6. In-kind aid--not recorded in the MTS or NIPA--was another $5 billion, and an additional $5 billion in financial contributions was received in April. The $37 billion total received since August is about two-thirds of the pledged amount.

NATIONAL DEFENSE OUTLAYS
(Monthly rates, not seasonally adjusted, billions of dollars)



National defense function adjusted for pay date shifts and excluding foreign contributions substantial and has occurred both at the RTC and the FDIC-BIF. RTC resolved only 22 thrifts in the first quarter--about one-quarter of last year's pace--hindered, in part, by a lack of funding. Additional funding for RTC was enacted in late March. Legislation to approve additional funding for FDIC-BIF is now before Congress.

Both branches of Congress have approved budget resolutions for FY1992 similar to the President's budget proposal, with only minor shifts among domestic spending programs.

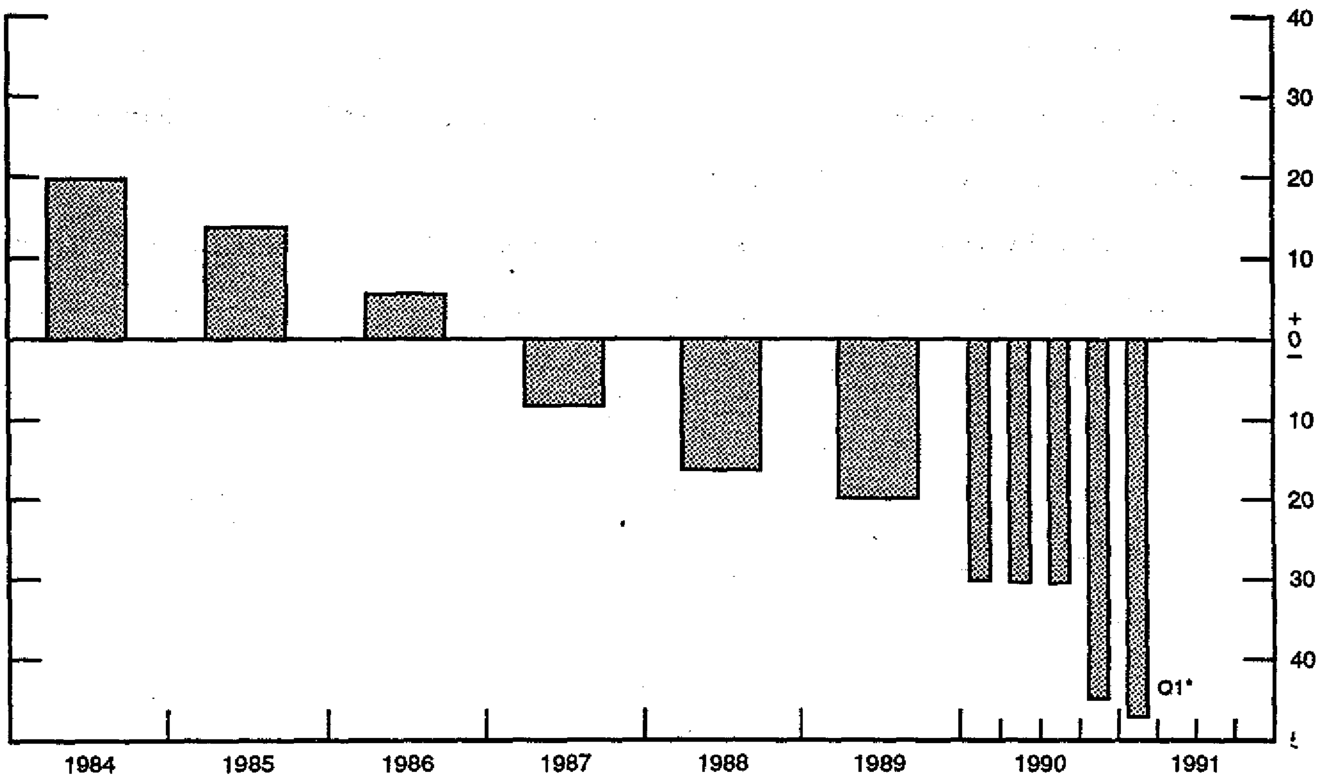
State and Local Governments

Fiscal difficulties are restraining state and local government spending this year. Real purchases of goods and services by state and local governments fell at a 1.4 percent annual rate in the first quarter after a big rise in the fourth quarter. Outlays for public structures fell 16 percent at an annual rate, and the growth in real outlays for other durable goods slowed sharply. In addition, growth in compensation for state and local employees has been restrained by the slow pace of new hiring. Despite the reduction in purchases in the first quarter, the deficit of operating and capital accounts, excluding social insurance funds, appears to have remained at about its sizable fourth-quarter level (chart).

The continued weakness in the fiscal position of the sector this year has resulted from both overruns in expenditures and lower-than-expected revenue collections. Regarding outlays, 45 states are expected to spend more on Medicaid or AFDC than was anticipated for fiscal year 1991, which

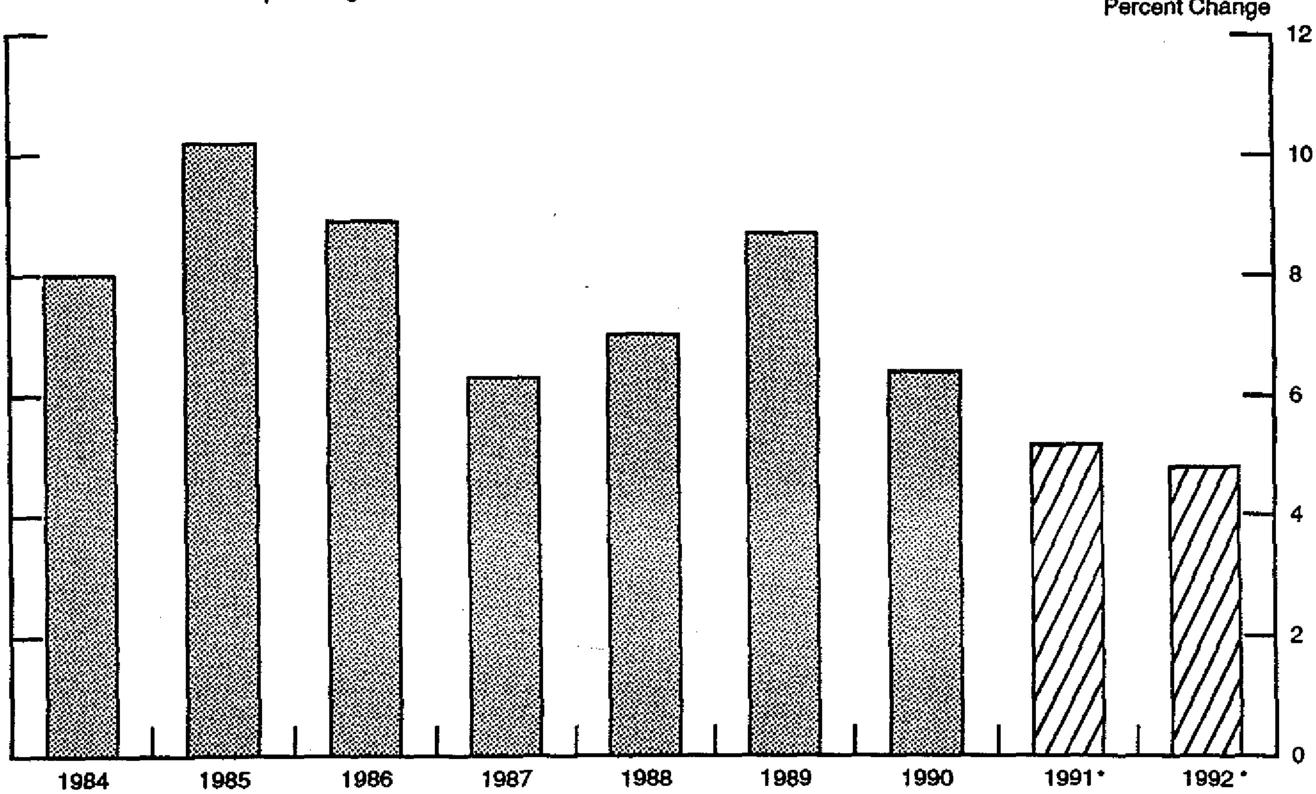
STATE AND LOCAL FISCAL SITUATION

Sector Operating and Capital Accounts Surplus (Deficit)



Source: NIPA. Excludes social insurance funds.
* Staff estimate.

State General Fund Spending Increase



Source: National Association of State Budget Officers, April 1991.
* Estimated by NASBO.

ends for all but four states at the end of June.[7] On the receipts side, all of the three major state revenue sources--personal income, corporate income, and sales taxes--have generated less funds than originally expected, reflecting the deterioration in economic activity. Overall, state general fund receipts are now anticipated to be nearly $10 billion less in fiscal year 1991 than was expected as recently as September. To cope with the weakness this year, states have cut, or have planned cuts, totaling $8 billion, and expenditures are expected to rise only 5.2 percent from FY1990--the smallest increase since the early 1980s (chart, lower panel)--instead of the 7.8 percent increase originally planned. Estimates for FY1992 suggest another year of budgetary distress, and further budget cuts and tax increases have been proposed.

Prices

Inflation appears to be on a downward path. Consumer prices edged down in March as energy prices retreated further, food prices rose moderately, and prices of other goods and services increased only marginally. Although the CPI excluding food and energy rose at a 6-3/4 percent annual rate over the first three months of the year, this elevated pace almost certainly exaggerated the underlying inflation trend.

The CPI for energy fell about 2-1/2 percent in March, the fourth consecutive month of decline. Prices of gasoline and fuel oil were down about 5 percent and 6-3/4 percent, respectively. Private survey data for

7. The increases from Medicaid largely result from greater caseloads, owing in part to federal mandates expanding coverage to more children and raising the income cutoffs for pregnant women and infants to 133 percent of the poverty level.

RECENT CHANGES IN CONSUMER PRICES
(Percentage change; based on seasonally adjusted data)[1]

	Relative importance Dec. 1990	1989	1990	1990 Q3	1990 Q4	1991 Q1	1991 Feb.	1991 Mar.
				------Annual rate-----			-Monthly rate-	
All items[2]	100.0	4.6	6.1	8.2	4.9	2.4	.2	-.1
Food	16.2	5.6	5.3	4.6	3.9	2.4	-.2	.2
Energy	8.2	5.1	18.1	44.2	18.0	-30.7	-4.0	-2.6
All items less food and energy	75.6	4.4	5.2	6.0	3.8	6.8	.7	.1
Commodities	24.5	2.7	3.4	3.3	2.3	7.9	1.0	-.1
Services	51.1	5.3	6.0	7.2	4.8	6.4	.6	.3
Memorandum:								
CPI-W[3]	100.0	4.5	6.1	8.4	5.0	1.5	.1	-.1

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change; based on seasonally adjusted data)[1]

	Relative importance Dec. 1990	1989	1990	1990 Q3	1990 Q4	1991 Q1	1991 Feb.	1991 Mar.
				------Annual rate-----			-Monthly rate-	
Finished goods	100.0	4.9	5.6	11.3	4.4	-3.9	-.6	-.3
Consumer foods	23.7	5.2	2.5	2.3	1.3	.6	.2	.2
Consumer energy	16.8	9.5	29.8	118.7	17.7	-35.4	-5.1	-3.2
Other finished goods	59.5	4.2	3.5	3.5	3.5	4.4	.4	.2
Consumer goods	36.4	4.4	3.6	3.5	3.1	5.6	.5	.2
Capital equipment	23.1	3.8	3.4	3.6	3.3	3.2	.2	.2
Intermediate materials[2]	95.2	2.5	4.6	13.4	3.8	-9.2	-.9	-1.1
Excluding food and energy	78.5	.9	1.9	4.0	2.0	-1.6	-.1	-.4
Crude food materials	34.7	2.8	-3.6	-7.8	-5.3	-1.1	.0	1.2
Crude energy	50.4	17.9	18.6	305.8	-20.2	-52.7	-15.9	-7.3
Other crude materials	14.9	-3.6	.4	5.9	-18.5	-2.4	.2	-1.1

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

April show modest, less than seasonal, increases in gasoline prices at retail; early May data indicate that gasoline prices were rising rapidly.

Gasoline stocks are reported to have declined in April to their lowest levels of the past decade. This reduction reflects a drawdown of the supplies of "winter" gasoline preparatory to the switchover to cleaner gasoline mandated for the summer months in order to control air pollution.[8] According to the Department of Energy, new gasoline stocks should be built up relatively quickly, given moderate demand, higher imports, and a smooth pickup of refinery activity after scheduled maintenance. However, any major disruptions of refinery operations would pose a near-term risk for gasoline supplies.

Food price inflation has proceeded at a fairly steady--and moderate--pace so far in 1991, apart from some sharp ups and downs in the prices of fresh fruits and vegetables. Increases in the CPI for food, including fruits and vegetables, averaged 0.2 percent per month through the first quarter; excluding fruit and vegetable prices, the monthly increases averaged 0.1 percent. The price index for meats and related products changed little on net over the first quarter, and dairy prices declined. The index for food away from home, which accounts for nearly 40 percent of total food in the CPI, rose at an annual rate of only 2.4 percent from December to March; the twelve-month rate of change in this series dipped to 3.6 percent, matching the previous low of the past twenty-five years.

In April, changes in food prices appear likely to be dominated by a steep upswing in the prices of fresh vegetables. Vegetable acreage was cut

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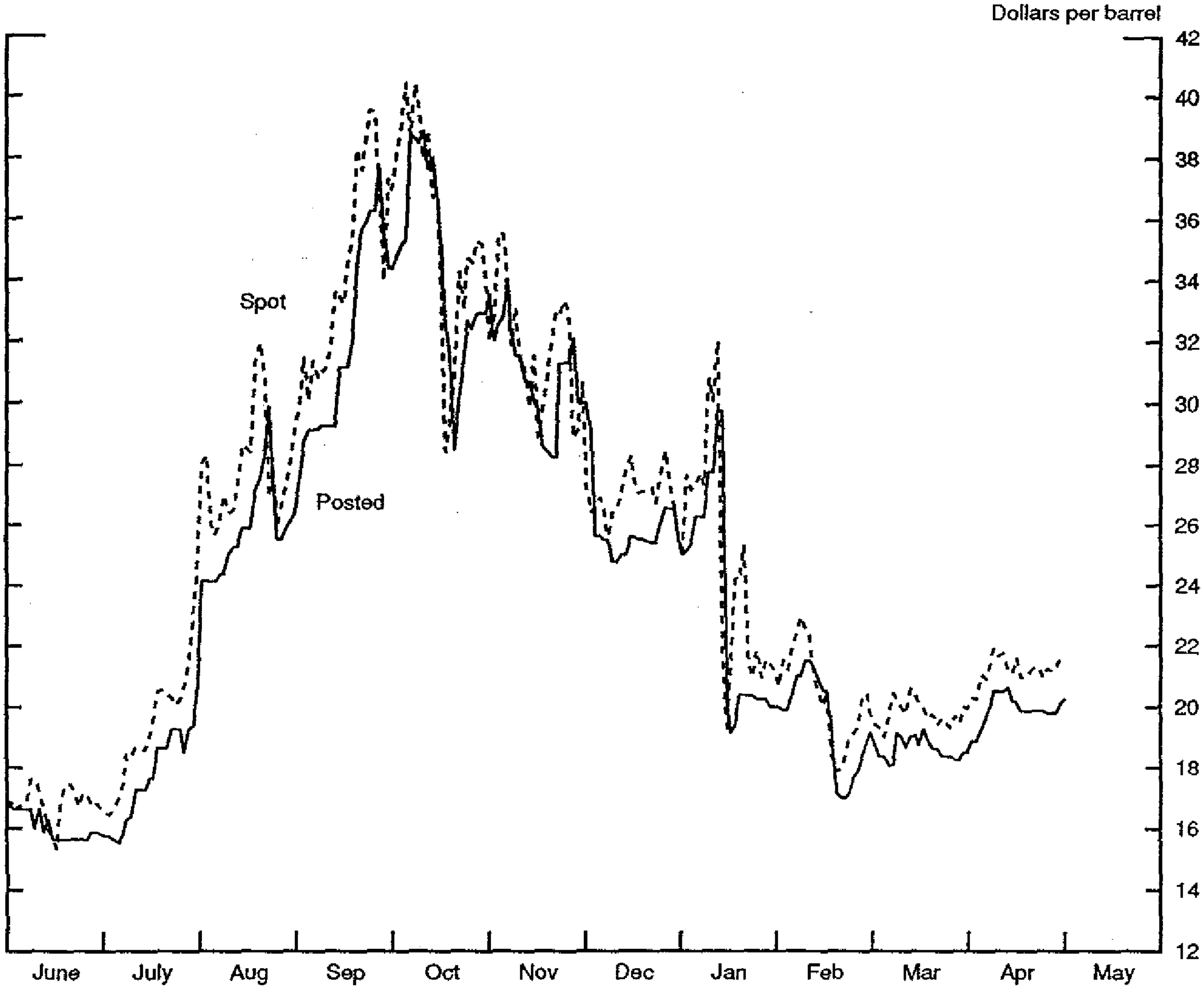
8. Since 1989, all "summer" gasoline sold must meet stricter EPA and individual state standards that limit volatility (as measured by Reid Vapor Pressure, or RVP).

Daily Spot and Posted Prices of West Texas Intermediate [1]



1. Posted prices are evaluated as the mean of the range listed in the Wall Street Journal.

MONTHLY AVERAGE PRICES--WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1990		
June	16.15	16.87
July	17.23	18.64
August	24.99	27.17
September	31.10	33.69
October	34.82	35.92
November	31.32	32.30
December	26.32	27.34
1991		
January	23.74	24.96
February	19.61	20.52
March	18.66	19.86
April	19.56	20.82
May [1]	19.96	21.42

1. Price through May 7.

back this spring in several regions, and progress of the crops was delayed by wet weather in both California and Florida. As a result, vegetable prices soared in the wholesale markets from mid-March through the third week of April; prices since have turned down, however, suggesting that the supply gap is closing and that the anticipated surge in vegetable prices at retail may be of relatively short duration.

Excluding food and energy, the CPI rose only 0.1 percent in March, after increases of 0.8 percent in January and 0.7 percent in February. Apparel prices, which had climbed 2-3/4 percent on a seasonally adjusted basis from December to February, dropped back 1-1/4 percent in March. This monthly pattern reflects the earlier-than-usual introduction in January and February ("expected" by the seasonal factors in March and April) of spring and summer clothing into the CPI sample. Changes in BLS methods and related seasonal adjustment problems also have affected the behavior of the CPI for lodging out of town. This index declined 1 percent in March, retracing a small fraction of its climb in preceding months. The CPI excluding food and energy also was affected in the first quarter by higher federal excise taxes, a jump in postal rates, and some bunching of price increases early in the year for items that are not seasonally adjusted by BLS.[9]

These special factors are estimated to have accounted for as much as 0.5 and 0.4 percentage point, respectively, of the increases in January and February, but, on net, reduced the March advance by 0.1 percentage point. Although it would be misleading to suggest that none of the price increases in those categories reflected general inflation pressures, this arithmetic

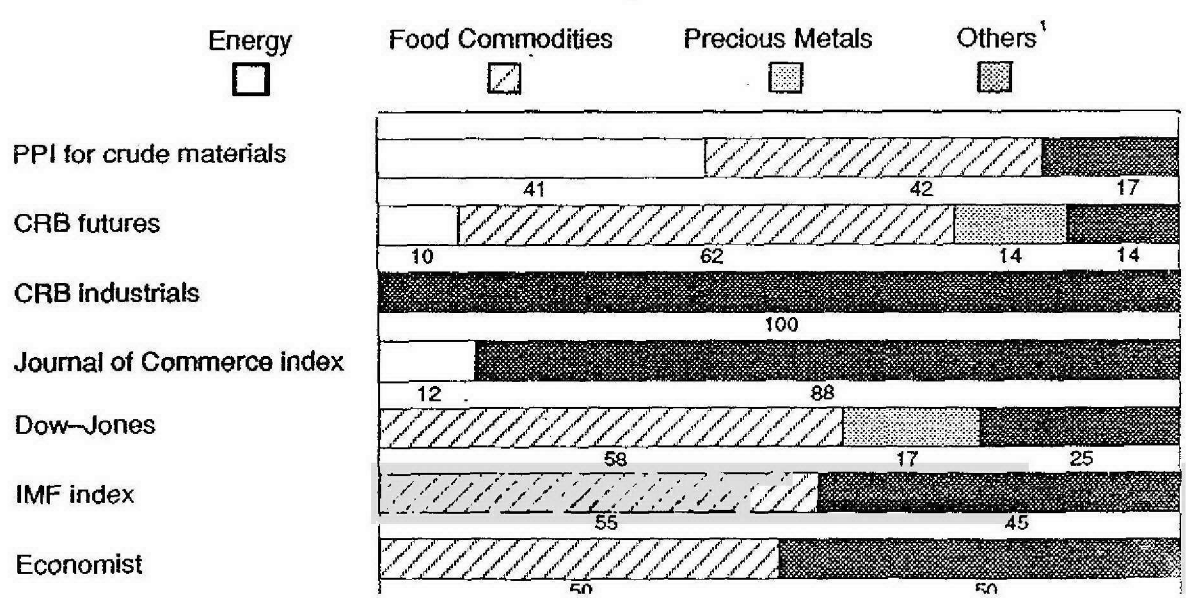
9. The BLS does not seasonally adjust items with excessive irregularity in seasonal patterns nor, as yet, those for which the 1987 revision represented important changes in coverage.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

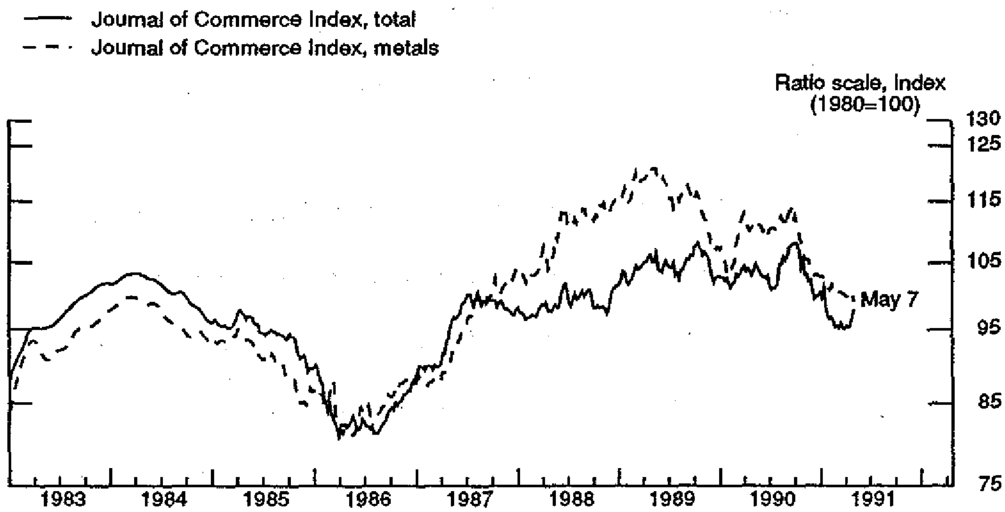
	Last observation	1989	1990	1991: To Mar. 19[3]	1991: Mar. 19[3] to date	Memo: Year earlier to date
		Percent change[2]				
1. PPI for crude materials[4]	Mar.	7.1	6.0	-8.1	n.a.	-3.8
1a. Foods and feeds	Mar.	2.8	-3.6	1.5	n.a.	-4.5
1b. Energy	Mar.	17.9	18.6	-17.1	n.a.	-1.8
1c. Excluding food and energy	Mar.	-3.6	.4	.2	n.a.	-1.1
1d. Excluding food and energy, seasonally adjusted	Mar.	-3.6	.4	-.6	n.a.	-1.1
2. Commodity Research Bureau						
2a. Futures prices	May 7	-9.0	-2.7	-1.8	-1.3	-12.1
2b. Industrial spot prices	May 6	-5.9	.6	-3.7	.5	-6.6
3. *Journal of Commerce* industrials	May 7	1.3	-2.4	-4.4	2.1	-5.6
3a. Metals	May 7	-7.2	-3.9	-2.2	-1.4	-10.7
4. Dow-Jones Spot	May 7	-10.1	-1.7	-.3	2.9	-5.1
5. IMF commodity index[4]	Mar.	-12.9	-5.6	.1	n.a.	-5.6
5a. Metals	Mar.	-23.4	-3.0	-1.3	n.a.	-10.3
5b. Nonfood agric.	Mar.	-4.6	-3.5	-4.8	n.a.	-5.5
6. *Economist* (U.S. dollar index)	Apr. 30	-22.8	-4.4	-2.7	-1.4	-16.0
6a. Industrials	Apr. 30	-23.8	-3.2	-4.4	.3	-13.9

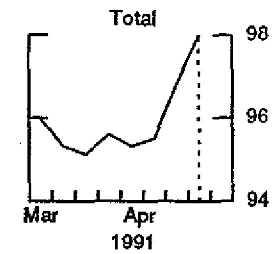
1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the March Greenbook.
4. Monthly observations. IMF index includes items not shown separately.
n.a. Not available.

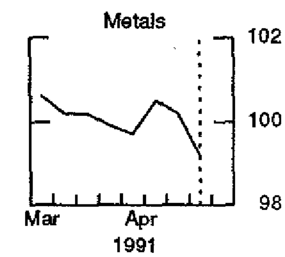
Index Weights



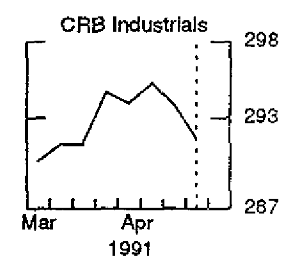
COMMODITY PRICE MEASURES *



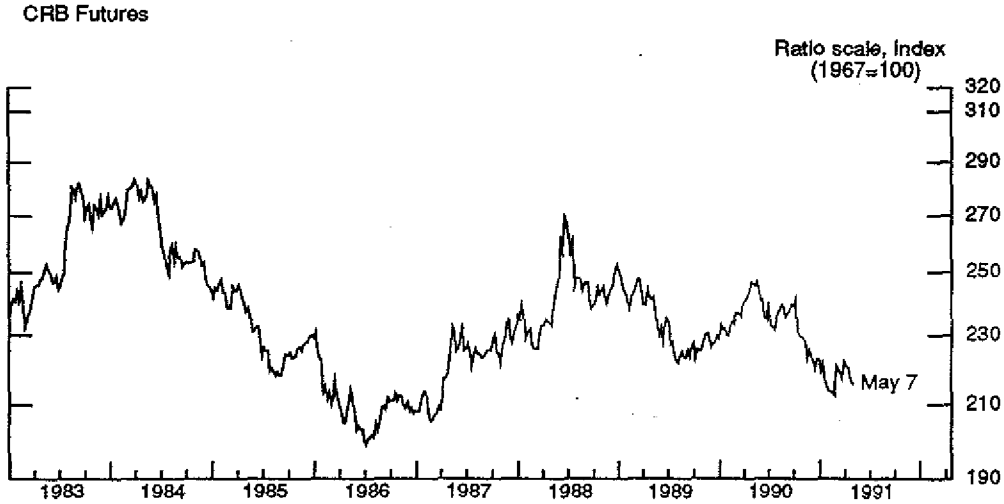


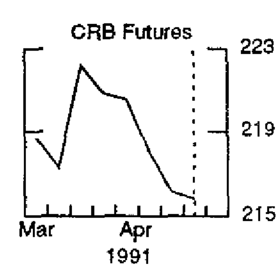


CRB Spot Industrials



CRB Futures





* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dotted lines indicate week of last Greenbook.

supports our notion that the underlying trend of consumer price increase already has dropped well below the pace suggested by the 5-1/4 percent rise in the CPI excluding food and energy in 1990.

At the producer level, the PPI for finished goods declined 0.3 percent in March, as energy prices continued to recede. Excluding food and energy items, the PPI rise slowed to 0.2 percent from 0.5 percent and 0.4 percent, respectively, in January and February. Reflecting passthrough of lower crude oil costs, producer prices of intermediate materials (nonfood, nonenergy) fell 0.4 percent in March, led by further declines for petrochemicals, plastics, and other petroleum-based materials. Declines also were registered in products of several industries with soft demand, notably for metals and paperboard. The PPI for crude nonfood materials less energy fell about 1 percent, mainly owing to declines for metal scrap and ores.

Price movements in spot markets for industrial commodities have been mixed since mid-March. The Journal of Commerce index of industrial metals prices has declined further, on net, and both this measure and the CRB spot index for industrials have continued to move in narrow ranges over the period. However, the Journal of Commerce index total has moved up in recent weeks, boosted mainly by increases for plywood, crude oil, and cotton.

Labor Costs and Productivity

Growing slack in the labor market appears to be restraining labor cost increases, although, as with prices, the recent data have been affected by special factors. Hourly compensation as measured by the employment cost index (ECI) rose 4.6 percent at a seasonally adjusted annual rate in the first quarter (table), but this figure was boosted both by an increase in the wage bases for social security and medicare taxes, and by a bounceback in commission earnings. On balance, compensation costs rose at about a 4-1/4 percent pace over the past two quarters, roughly 1/2 percentage point below the pace recorded during the preceding 12-month period.

Wages and salaries advanced 4.2 percent at an annual rate in the first quarter, well above the 3.1 percent rise in the fourth quarter. This quarterly pattern was shaped in large part by volatile earnings of sales workers; their commissions fell off sharply in the fourth quarter, but were boosted in the first quarter by strong earnings in the financial sector. The average rate of increase for the two quarters was 3.7 percent at an annual rate--1/2 percentage point below the average pace over the first nine months of 1990. Despite the rise in payroll taxes, growth in benefit costs slowed further in the first quarter to a pace of 5.2 percent at an annual rate; a smaller rate of increase of pension costs and nonproduction bonuses offset additional large increases in health insurance premiums.

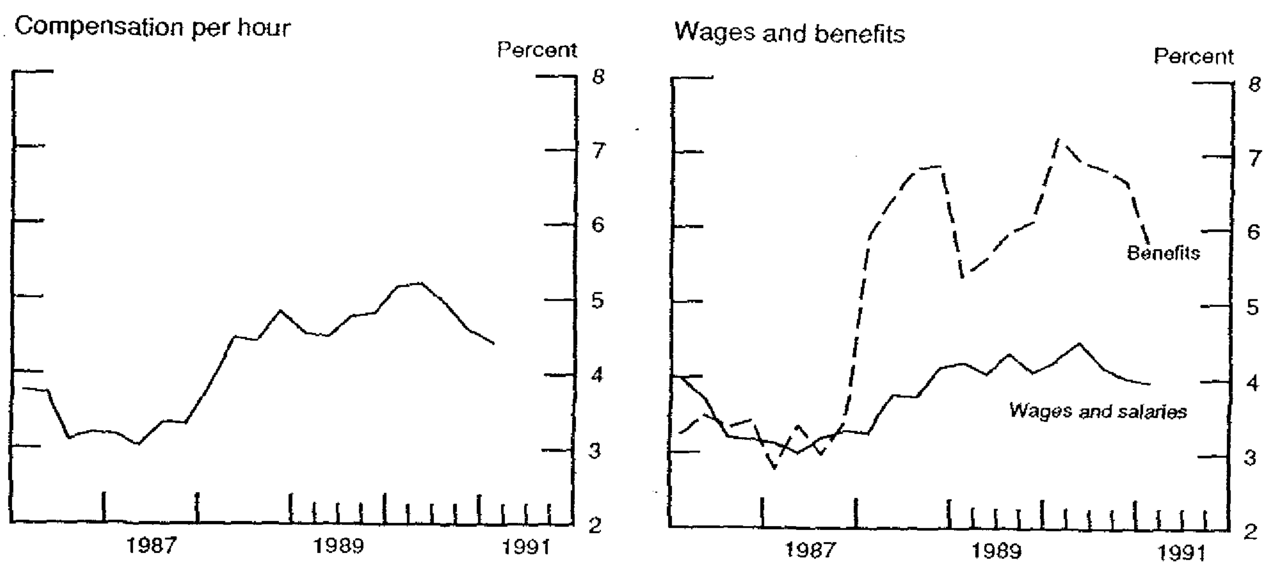
In the union sector, compensation gains have averaged about 4 percent over the past year, roughly 1/2 percentage point below the increases posted in the nonunion sector. Bargaining so far in 1991 has been very light, with only 215,000 workers covered by new major collective bargaining agreements. Those settlements provided for wage adjustments averaging 4.5 percent in the first contract year, up from the 4 percent first-year increases provided by contracts reached in 1990 (table). The pickup, however, largely reflected the first-quarter settlements covering 24,000 steelworkers (mostly at USX), in which earlier wage concessions were restored. Average adjustments over the life of new contracts signed in the first quarter were about 3-1/2 percent, similar to adjustments in settlements negotiated in 1990.

EMPLOYMENT COST INDEX
(Percent change from preceding period at compound annual rates; based on seasonally adjusted data)

	1988[1]	1989[1]	1990[1]	1990 Sep.	1990 Dec.	1991 Mar.
Total compensation costs:						
Private industry workers	4.8	4.8	4.6	4.3	3.8	4.6
By industry:						
Goods-producing	4.4	4.3	4.8	4.3	3.8	4.6
Service-producing	5.1	5.1	4.6	4.3	3.8	4.9
By occupation:						
White-collar	5.0	5.2	4.9	4.6	2.7	6.1
Blue-collar	4.5	4.1	4.4	3.9	3.8	4.6
Service workers	5.3	4.4	4.7	3.5	5.0	4.2
Memo:						
Wages and salaries	4.1	4.1	4.0	3.9	3.1	4.2
Benefits	6.9	6.1	6.6	6.5	5.7	5.2

1. Changes are from December of preceding year to December of year indicated.

Employment Cost Index
(Private industry workers; twelve-month percent change)



Data for April indicate that average hourly earnings jumped 0.5 percent--probably boosted by an increase in the minimum wage from $3.80 to $4.25 per hour, effective April 1. The effects of the higher minimum wage are most apparent in retail trade, where average hourly earnings jumped 0.9 percent. Over the twelve months ended in April, average hourly earnings rose 3-1/4 percent, nearly 1 percentage point below the peak recorded two years ago.

AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)[1]

	1989	1990	1991 Q1	1991 Jan.	Feb.	Mar.	Apr.
Total private nonfarm	4.1	3.7	2.0	.0	.2	.3	.5

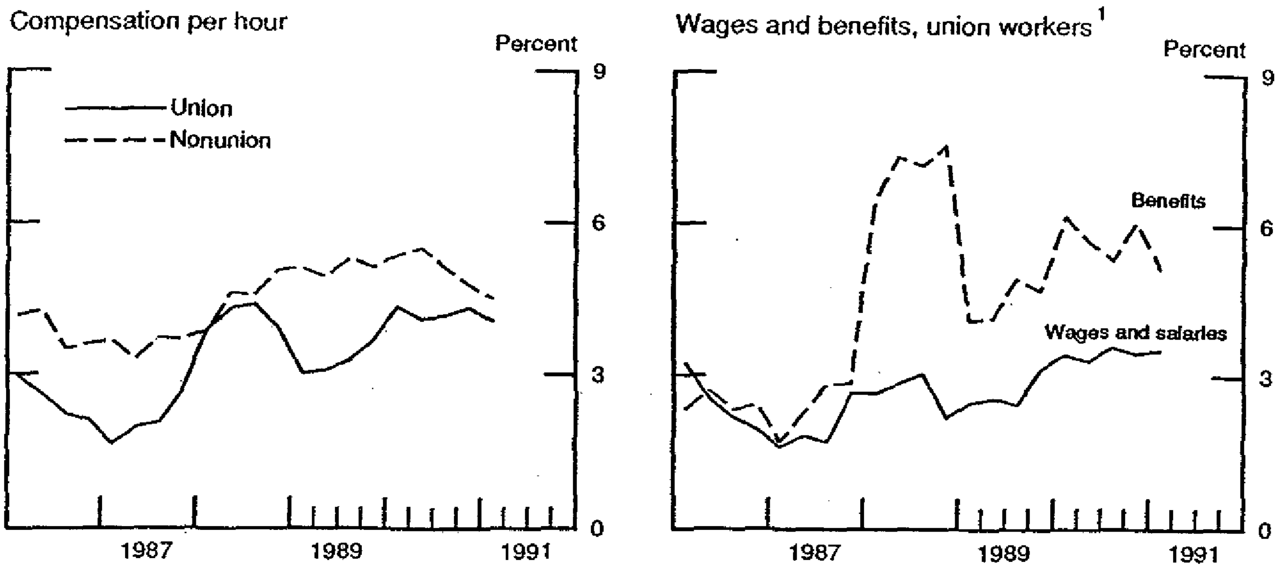
1. Changes are from preceding period indicated.

Productivity in the nonfarm business sector as a whole rose 1.0 percent at an annual rate in the first quarter, and has shown little change, on net, over the course of the recession.

In manufacturing, however, the cutbacks in hours generally have not matched the sharp declines in industrial output since last September, and output per hour fell an average 1 percent in the fourth and first quarters, after rising at close to a 4-1/2 percent pace in the three quarters prior to the business cycle peak. While compensation growth in manufacturing has slowed with the rising slack in the labor market, the productivity declines over the past two quarters have boosted measured unit labor costs relative to their pace over the prior two years.

Employment Cost Index

(Private industry; twelve–month percent change)



1. Growth in union benefit costs are estimated by FRB staff.

NEGOTIATED WAGE RATE CHANGES UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]

(Percent change)

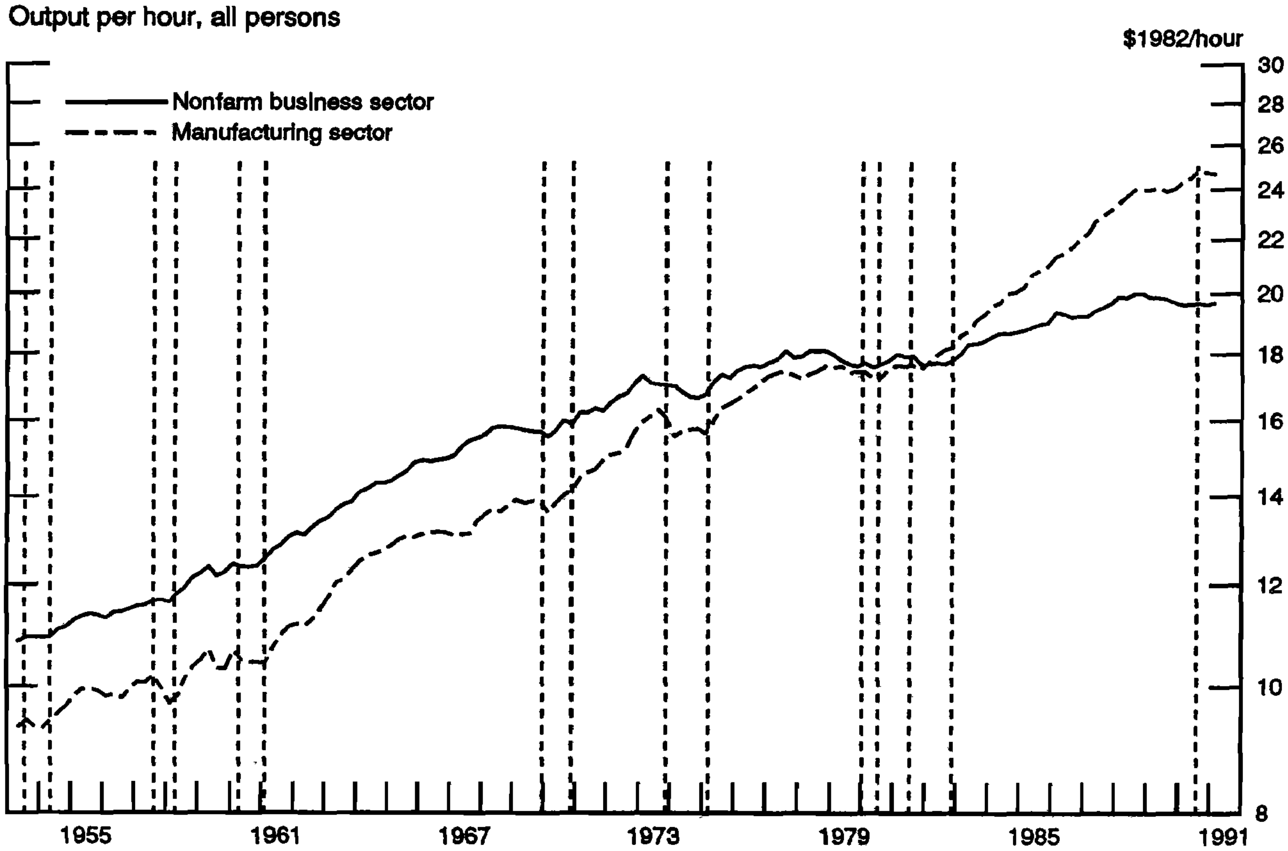
	1988	1989	1990	Same parties under prior settlements	First three months 1991
First-year adjustments	2.5	4.0	4.0	1.5	4.5
All industries					
Average over life of contract	2.4	3.3	3.2	2.0	3.4
Manufacturing	2.3	3.9	3.7	---	7.6
Nonmanufacturing	2.7	4.0	4.3	---	3.2
Workers affected (in thousands)	1799	1847	2004	---	215

1. Contracts covering 1,000 or more workers; estimates exclude lump-sum payments and potential gains under cost-of-living clauses.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND ITS COMPONENTS

	1988	1989	1990	Over four quarters ended 1991
Total	2.6	3.2	3.5	3.6
Contribution of:	.7	1.2	1.3	1.3
New settlements	.6	.7	.7	.7
COLAs				
Deferred increases	1.3	1.3	1.5	1.6

Productivity



LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rates; based on seasonally adjusted data)

	1989[1]	1990[1]	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1
Output per hour							
Nonfarm business	-1.6	-.3	-1.3	.3	.6	-.7	1.0
Manufacturing	2.0	3.0	4.9	3.1	5.4	-1.3	-.9
Compensation per hour							
Nonfarm business	2.2	4.4	3.9	5.0	4.7	3.9	4.0
Manufacturing	3.1	3.9	2.3	4.7	4.0	4.7	3.4
Unit Labor Costs							
Nonfarm business	3.9	4.7	5.3	4.7	4.1	4.7	3.0
Manufacturing	1.1	.9	-2.5	1.6	-1.3	6.1	4.4

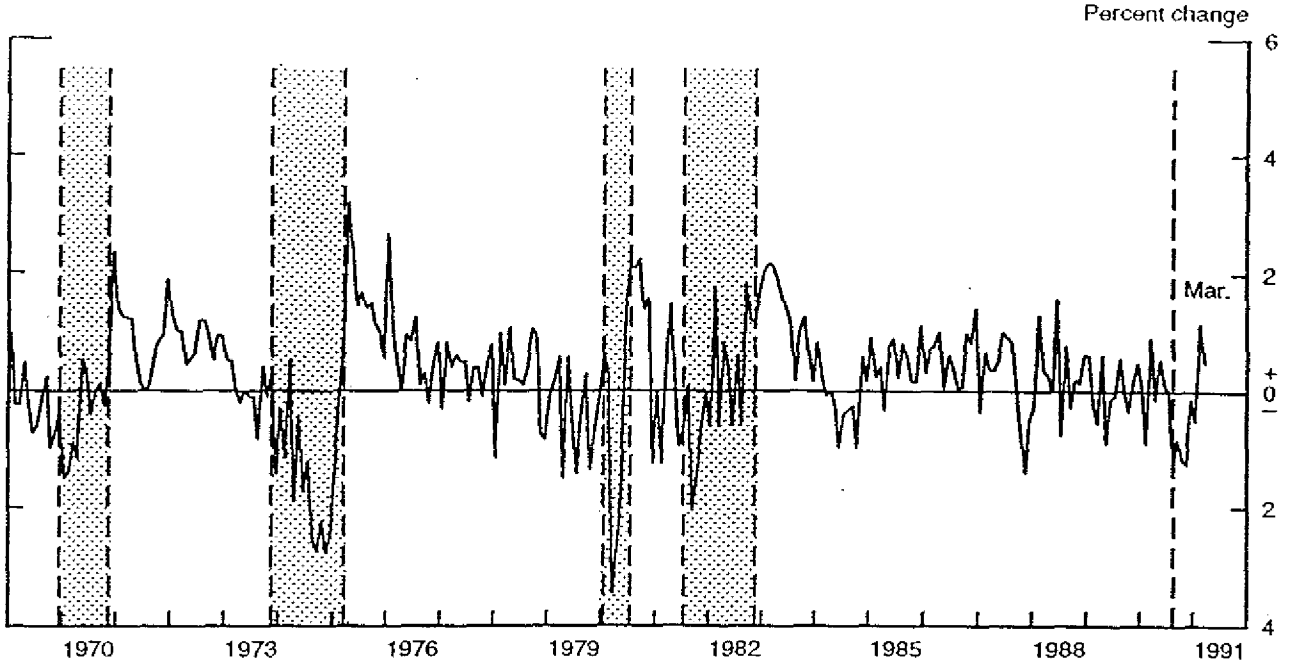
1. Changes are from final quarter of preceding period to final quarter of period indicated.

Probability of Expansion

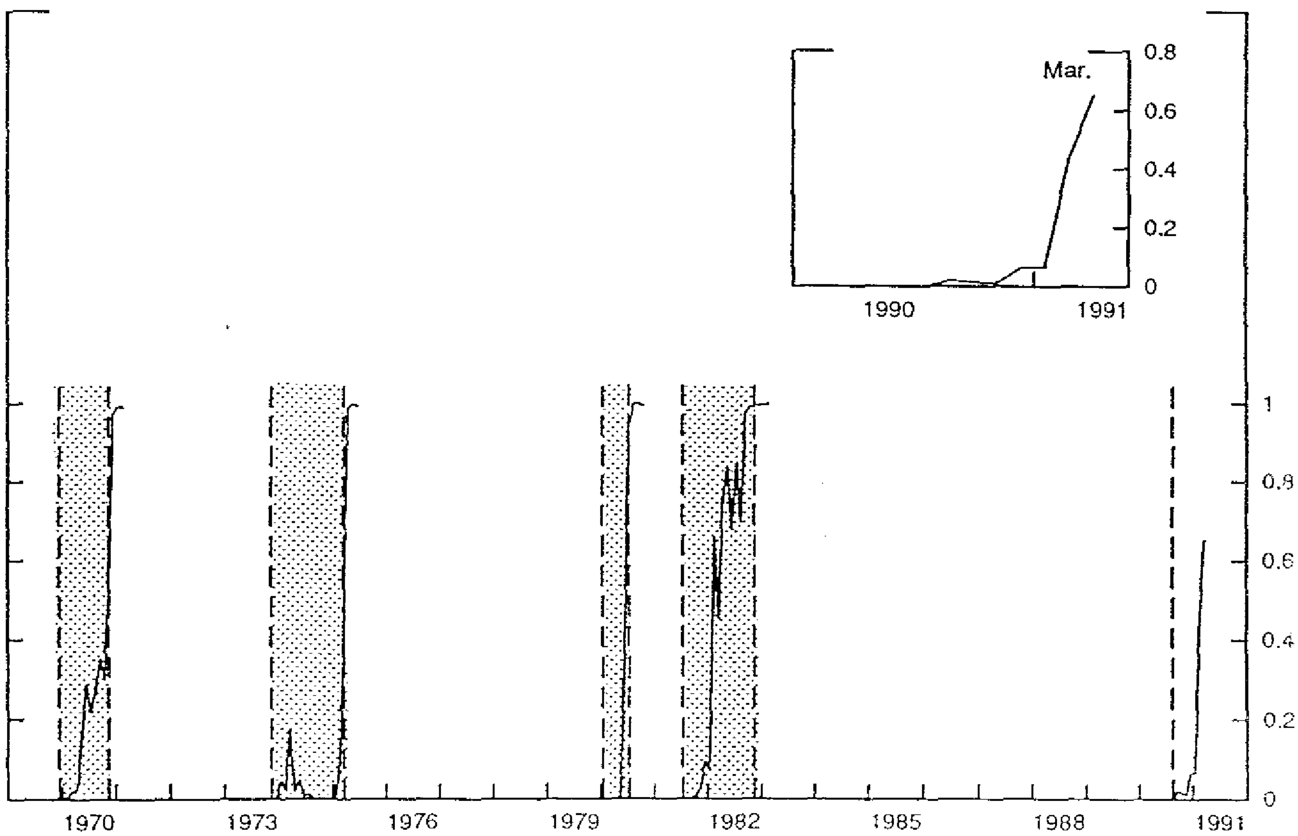
The Commerce Department's composite index of leading economic indicators appears to have bottomed out early this year. In both February and March, the index rose quite briskly, largely on the basis of increases in the stock market, the money supply, and the Michigan survey index of consumer expectations. Furthermore, based on the available data for the components, the composite index is likely to post a small increase in April. Typically in the postwar period, troughs in the leading index have predated general business cycle troughs by about 2 to 5 months. Thus, the January trough in the leading index suggests a business cycle trough by June.

More formally, recent movements in the leading index can be translated into probability forecasts of the start of an expansion. The average cyclical lead time of a trough in the leading index is reflected in recent probabilities. The March reading puts the probability of an expansion starting during the second quarter at 65 percent (chart).

COMPOSITE INDEX OF LEADING INDICATORS



PROBABILITY OF EXPANSION *



*Each probability represents the likelihood that an expansion will begin during the next three months.

DOMESTIC FINANCIAL DEVELOPMENTS

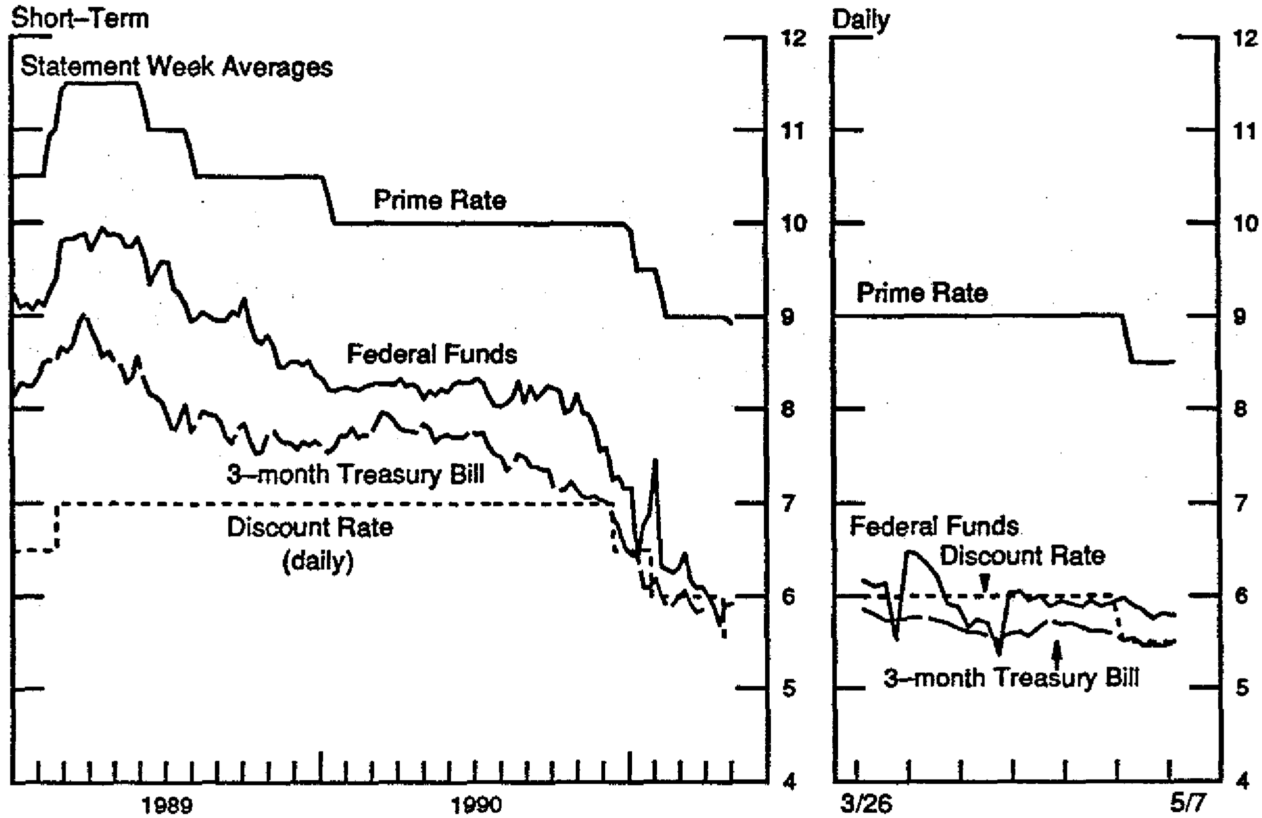
SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

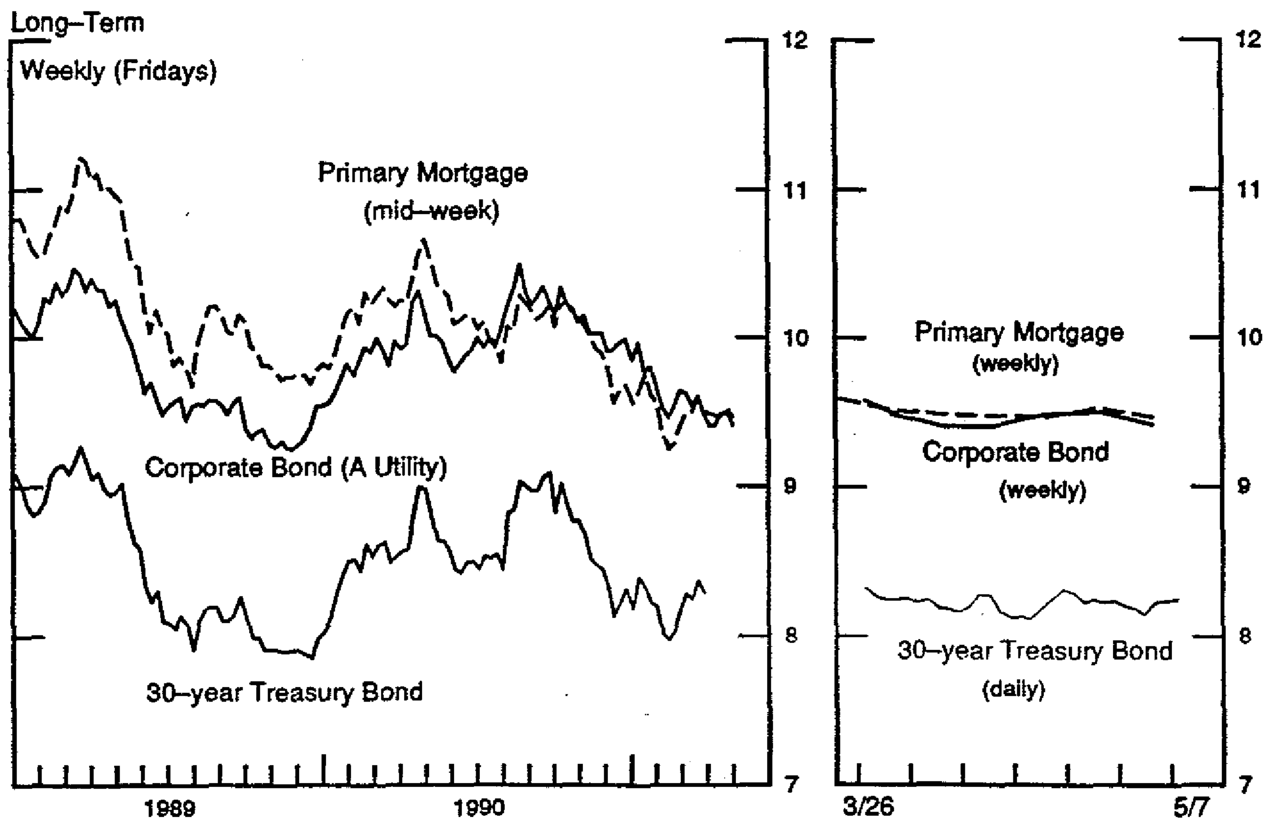
	1989 March highs	1989 Dec lows	1990 Aug highs	1991 FOMC Mar 26	1991 May 7	Change from: Aug 90 highs	Change from: FOMC Mar 26
Short-term rates							
Federal funds[2]	9.85	8.45	8.21	6.13	5.79	-2.42	-0.34
Treasury bills[3]							
3-month	9.09	7.53	7.59	5.86	5.50	-2.09	-0.36
6-month	9.11	7.29	7.51	5.86	5.65	-1.86	-0.21
1-year	9.05	7.11	7.45	5.99	5.78	-1.67	-0.21
Commercial paper							
1-month	10.05	8.51	8.10	6.36	5.92	-2.18	-0.44
3-month	10.15	8.22	8.05	6.29	5.92	-2.13	-0.37
Large negotiable CDs[3]							
1-month	10.07	8.52	8.14	6.33	5.87	-2.27	-0.46
3-month	10.32	8.22	8.18	6.33	5.89	-2.29	-0.44
6-month	10.08	8.01	8.25	6.42	5.99	-2.26	-0.43
Eurodollar deposits[4]							
1-month	10.19	8.38	8.13	6.31	5.88	-2.25	-0.43
3-month	10.50	8.25	8.19	6.31	5.94	-2.25	-0.37
Bank prime rate	11.50	10.50	10.00	9.00	8.50	-1.50	-0.50
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	9.88	7.69	8.50	7.40	7.10	-1.40	-0.30
10-year	9.53	7.77	9.05	8.13	8.06	-0.99	-0.07
30-year	9.31	7.83	9.17	8.31	8.24	-0.93	-0.07
Municipal revenue[5] (Bond Buyer)	7.95	7.28	7.80	7.33	7.14	-0.66	-0.19
Corporate--A utility recently offered	10.47	9.29	10.50	9.58	9.45	-1.05	-0.13
Home mortgage rates[6]							
S&L fixed-rate	11.22	9.69	10.29	9.59	9.47	-0.82	-0.12
S&L ARM, 1-yr.	9.31	8.34	8.39	7.44	7.23	-1.16	-0.21

	Record highs	Date	1989 Lows Jan 3	1991 FOMC Mar 26	1991 May 7	Percent change from: Record highs	Percent change from: 1989 lows	Percent change from: FOMC Mar 26
Stock prices								
Dow-Jones Industrial	3004.46	4/17/91	2144.64	2914.85	2917.49	-2.89	36.04	0.09
NYSE Composite	213.21	4/17/91	154.00	205.55	206.65	-3.08	34.19	0.54
AMEX Composite	397.03	10/10/89	305.24	356.92	362.91	-8.59	18.89	1.68
NASDAQ (OTC)	511.31	4/17/91	378.56	478.57	491.51	-3.87	29.84	2.70
Wilshire	3731.48	4/17/91	2718.59	3581.55	3611.16	-3.22	32.83	0.83

1/ One-day quotes except as noted.
2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for the maintenance period ending May 15, 1991.
3/ Secondary market.
4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
5/ Based on one-day Thursday quotes and futures market index changes.
6/ Quotes for week ending Friday closest to date shown.

Selected Interest Rates*
(percent)





*—Friday weeks through May 3, Wednesday weeks through May 1.

The accumulating evidence of continuing economic sluggishness and an abatement in inflation pressures tipped the scales of policy toward further ease at the end of April. The discount rate was cut by 1/2 percentage point to 5-1/2 percent, and System open market operations passed half that reduction through to the federal funds rate, which fell to 5-3/4 percent. Other money market rates are now 25 to 45 basis points below their levels at the time of the March FOMC meeting. The prime rate, which had remained high relative to the cost of funds in recent months, was cut 1/2 percentage point to 8-1/2 percent immediately after the drop in the discount rate. Apparently looking past the near-term weakness in the economy, bond market participants found less reason to bid up prices--especially in the wake of a stronger-than-expected April labor market report. Yields on Treasury bonds are down only about 10 basis points on net over the intermeeting period, implying a further steepening of a yield curve already exhibiting a substantial upward tilt. Major stock price indexes recorded all-time highs in April but have dropped back to a bit above their March 26 levels, more consistent with the modest gains in bond prices.

The cumulative decline in interest rates, elevated equity prices, and narrower quality spreads kept open the window for corporate security issuance and even enticed some offerings of upper-tier junk bonds. Total public offerings of bonds and stocks in April remained at the robust first-quarter pace, while the composition tilted toward more speculative issues. Data from March and anecdotal evidence more recently suggest that demand for these securities has been bolstered by a movement by retail investors toward the bond and stock markets, in part through mutual funds and perhaps at the expense of M2-type assets.

The growth of M2 slowed in April from the brisk pace of the preceding two months. This deceleration and that of M3 also may have owed in part to distortions associated with personal tax payments, as well as to the absence of some special factors that had buttressed money growth earlier--the war-related surge in the demand for U.S. currency and the adjustment of the stock of large time deposits issued by branches and agencies of foreign banks to the drop in reserve requirements. Still, at 3 percent, the growth of M2 kept that aggregate close to the midpoint of its target cone; although M3 remained in the upper half of its annual range, its growth nearly stalled last month, as bank funding needs dropped. Bank credit declined slightly in April, with net acquisitions of securities not quite making up for the sizable drop in outstanding loans.

Overall net borrowing by nonfinancial sectors in April likely was in line with the subdued pace of the previous months, the pickup in corporate bond and commercial paper issuance being offset by weaker bank C&I loans and a slowdown in governmental borrowing. The seasonal inflow of tax payments, a lull in RTC activity, and foreign payments supporting Operation Desert Storm permitted the Treasury temporarily to pay down debt; borrowing by state and local governments appears to have been about unchanged in April. Information on household borrowing is scant, but available data give no hint of a major change in the recent sluggish trend.

Monetary Aggregates and Bank Credit

The slowdown in money growth last month was most pronounced for M1, which contracted slightly. Currency growth stalled as net demands from

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1990[1]	1990 Q4	1991 Q1	1991 Feb	1991 Mar	1991 Apr pe	Growth Q4 90- Apr 91pe
	-----------Percent change at annual rates						
1. M1	4.2	3.4	5.8	14.1	9.3	-1	5½
2. M2	3.8	2.1	3.6	8.7	7.6	3	4½
3. M3	1.7	1.0	4.3	10.8	3.0	1	4
	-----------Percent change at annual rates						Levels bil. $ Mar 91
Selected components							
4. M1-A	4.6	4.9	5.7	15.1	5.6	-3	542.0
5. Currency	11.0	11.1	15.3	16.7	7.5	0	256.7
6. Demand deposits	-0.6	-0.7	-2.5	14.5	4.3	-6	277.2
7. Other checkable deposits	3.5	0.7	6.0	11.8	16.6	4	300.9
8. M2 minus M1[2]	3.7	1.7	2.9	6.9	7.0	4	2535.7
9. Overnight RPs and Eurodollars, NSA	3.2	-20.3	-37.2	-10.0	-6.8	22	70.7
10. General purpose and broker/dealer money market mutual fund shares	11.4	11.2	19.4	14.1	18.0	3	365.9
11. Commercial banks	9.9	7.8	8.3	11.5	10.8	3	1202.8
12. Savings deposits plus MMDAs[3]	7.5	4.1	7.5	15.1	17.0	15	594.7
13. Small time deposits	12.4	11.5	9.0	8.0	4.8	-8	608.1
14. Thrift institutions	-5.5	-8.1	-6.6	-3.3	-3.1	2	894.8
15. Savings deposits plus MMDAs[3]	-2.2	-7.4	-0.6	8.9	15.9	21	345.0
16. Small time deposits	-7.3	-8.6	-10.2	-10.5	-14.4	-10	549.9
17. M3 minus M2[4]	-6.4	-3.5	7.2	20.0	-16.2	-8	796.0
18. Large time deposits	-9.5	-12.9	1.0	9.6	-10.9	-12	511.1
19. At commercial banks, net[5]	-3.5	-8.4	11.7	21.6	-3.9	-7	399.6
20. At thrift institutions	-23.9	-26.3	-32.4	-30.5	-36.6	-29	111.4
21. Institution-only money market mutual fund shares	20.2	30.4	49.9	84.9	23.3	30	142.0
22. Term RPs, NSA	-12.0	-25.9	-29.4	-12.2	-42.5	-16	84.5
23. Term Eurodollars, NSA	-12.1	15.9	10.2	16.7	-16.4	-30	72.0
MEMORANDA:[6]	-----Average monthly change in billions of dollars----						
24. Managed liabilities at commercial banks (25+26)	-0.1	-2.4	-1.5	-2.2	-0.7	-2	715.1
25. Large time deposits, gross	-2.6	-3.9	6.3	9.5	0.3	0	450.7
26. Nondeposit funds	2.4	1.6	-7.8	-11.7	-1.0	-2	264.4
27. Net due to related foreign institutions	2.2	4.3	-1.5	-8.7	5.3	-2	30.0
28. Other[7]	0.2	-2.8	-6.2	-3.0	-6.3	0	234.4
29. U.S. government deposits at commercial banks[8]	0.3	-0.5	3.1	7.7	0.4	-13	33.8

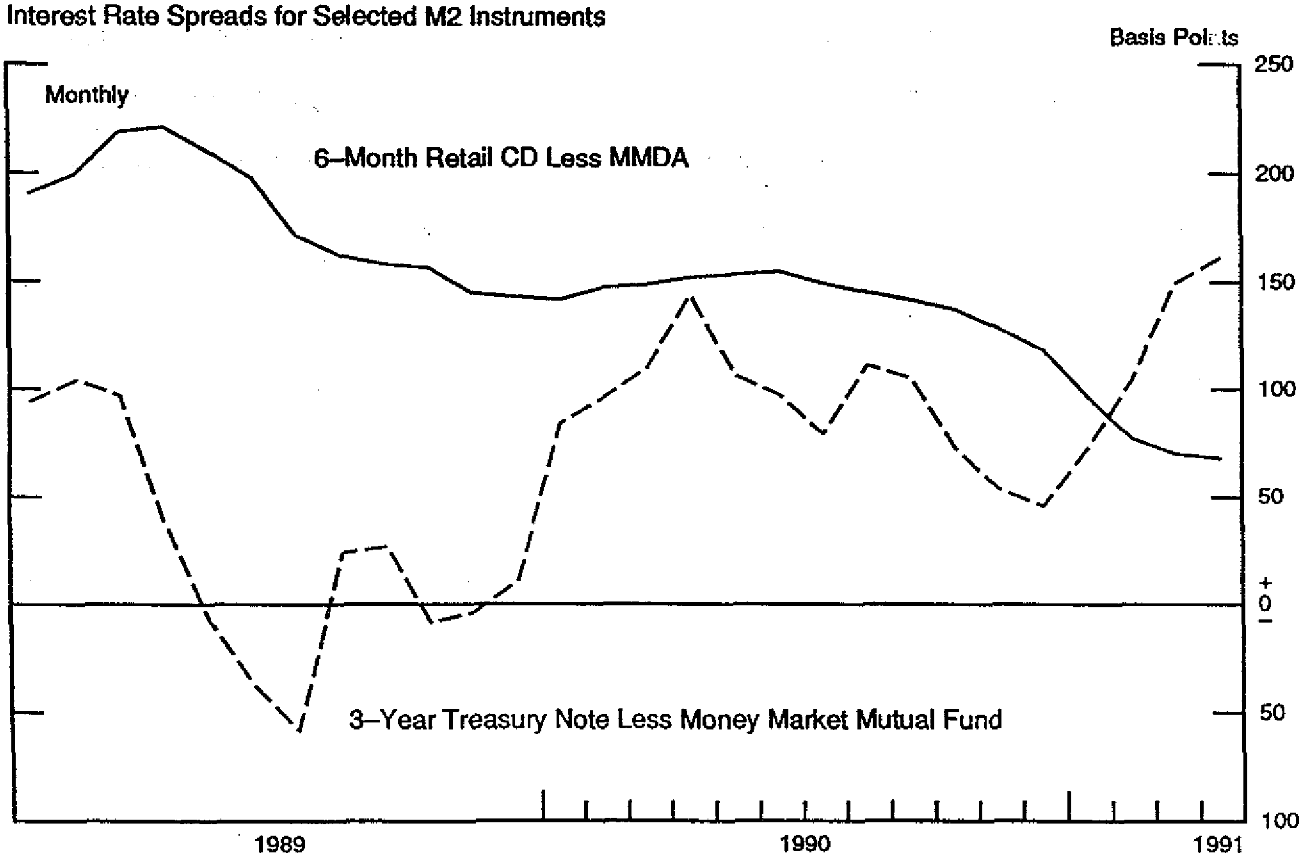
1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during March and April at rates of 15.3 percent and 16 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during March and April at rates of 14.1 percent and 20 percent, respectively.
4. The non-M2 component of M3 is seasonally adjusted as a whole.
5. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
6. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
7. Consists of borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
8. Consists of Treasury demand deposits and note balances at commercial banks.

pe - preliminary estimate

abroad evidently reversed with the unwinding of the Persian Gulf conflict. Demand deposits declined, and growth in other checkable deposits dropped from the double-digit rates of the preceding two months to just a 4 percent pace, a weakness that coincided with the recession-induced falloff in nonwithheld tax payments. Extra caution is appropriate in analyzing movements in transactions accounts at this time of year, however, because the frequent changes in federal tax law have altered the size and timing of April tax payments and refunds and made it difficult to identify the seasonal norms in monetary behavior.

The weakness in M1 showed through to M2 and was augmented by a sharp deceleration in money market mutual fund shares. In the first quarter, money funds were a major source of strength in the broader aggregate as their average yield lagged behind rapidly declining short-term market rates. But with short rates little changed for most of April, money funds proved less attractive to investors who wanted to remain in short-dated instruments. Further, with the continued steepening of the yield curve (chart), longer-term market instruments drew more attention. Stock and bond mutual funds posted brisk inflows in March, and informal reports from fund managers point toward an even stronger April. These funds also may have grown at the expense of small time deposits, as depositors were faced with rolling over their maturing CDs at substantially reduced interest rates. Additionally, the narrowing rate advantage of retail certificates of deposit over more liquid savings deposits and MMDAs took its toll on small time deposits, which shrank at a 9 percent annual rate in April (chart); savings deposits and MMDAs continued to increase rapidly last month. With the lull in RTC activities, thrifts witnessed their first monthly net inflow of core deposits since mid-1988.

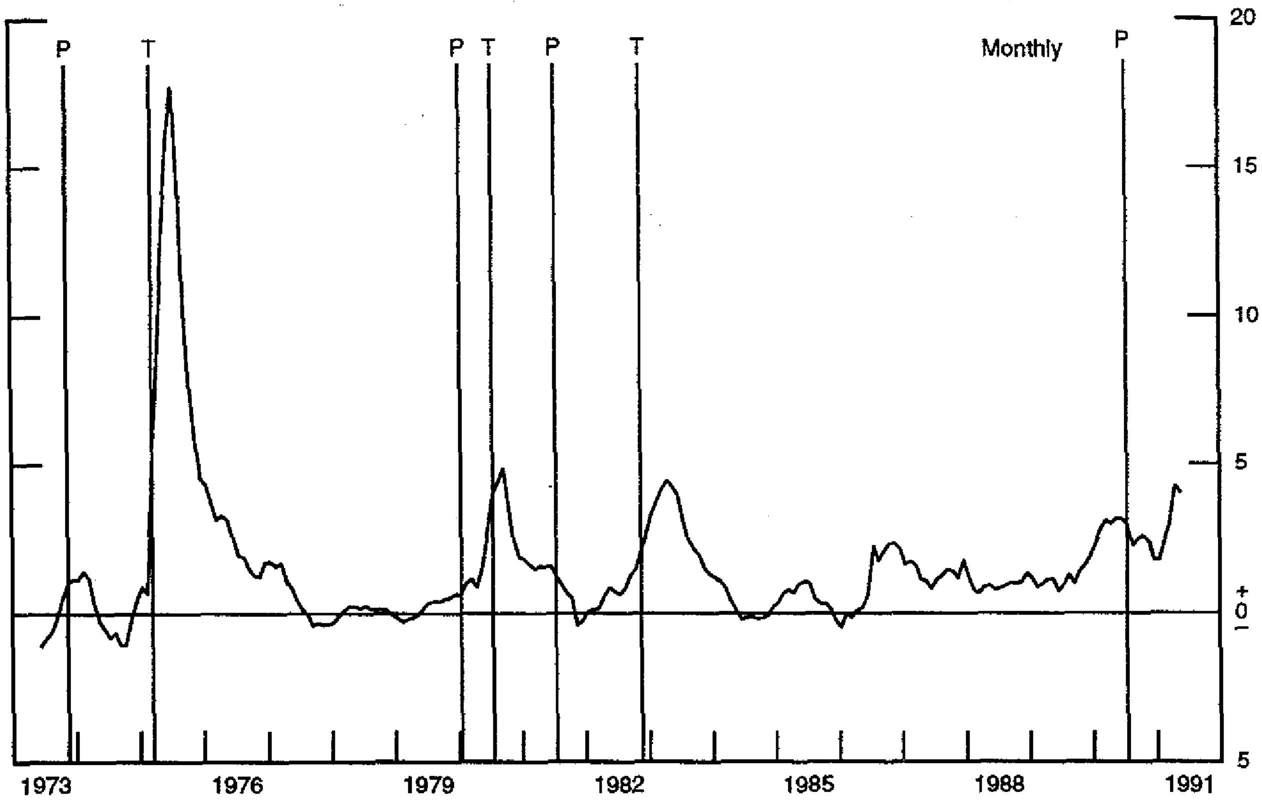
Interest Rate Spreads for Selected M2 Instruments



M3 also decelerated in April, and its non-M2 component continued to run off. Large time deposits declined last month, as--after an initial explosion in response to the elimination of reserve requirements on nonpersonal time deposits--the growth of large time deposits issued by U.S. branches and agencies of foreign banks ("Yankee CDs") tapered off. This slowing in issuance apparently related to window dressing at quarter-end, marking only a pause in the continuing substitution for other liabilities. The latest weekly data reveal renewed strength in Yankee CDs.

Preliminary data suggest that bank credit was off a bit in April, in contrast to the 6-1/2 percent pace of expansion of the preceding two months. In light of sluggish loan demand and concerns about credit quality, banks continued to funnel funds into the U.S. government securities category, which includes mortgage-backed securities. Heightened purchases of securities are typical around business-cycle troughs, as deposit inflows revive before loan demand (chart). While the shifting composition of asset flows may be reminiscent of previous business-cycle troughs, in this episode banks began to shift in mid-1989. However, financial innovation may have robbed such comparisons of some of their meaning. In the current business

Share of U.S. Government Holdings in Total Flow of Bank Credit*



*Ratio of six-month change in holdings of US government securities to six-month change in bank credit.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT

(Percentage changes at annual rates, based on seasonally adjusted data)

		1989:Dec. to 1990:Dec.	1990 Q4	1991 Q1	1991 Feb.	1991 Mar.	1991 Apr.p	Levels bil.$ Mar.
		Commercial Bank Credit						
1.	Total loans and securities at banks	5.3	2.3	4.0	6.3	6.8	-1	2750.9
2.	Securities	8.6	.5	12.5	7.4	25.7	9	648.9
3.	U.S. government securities	13.9	3.6	15.0	10.3	34.8	18	471.4
4.	Other securities	-3.1	-7.4	5.9	.0	2.0	-12	177.6
5.	Total loans	4.3	2.9	1.5	6.0	1.1	-5	2102.0
6.	Business loans	1.9	3.1	-.7	.4	3.5	-9	646.0
7.	Real estate loans	9.5	6.1	3.4	6.6	3.6	3	846.3
8.	Consumer loans	1.3	.6	-2.6	5.8	-4.8	-3	375.5
9.	Security loans	4.1	-7.8	-16.8	2.8	-122.5	-22	38.9
10.	Other loans	-1.8	-4.6	11.6	21.0	20.0	-18	196.1
		Short- and Intermediate-Term Business Credit						
11.	Business loans net of bankers acceptances	1.9	3.2	.2	1.9	4.0	-9	640.1
12.	Loans at foreign branches[2]	19.3	37.0	-3.1	-13.7	-9.2	-42	25.8
13.	Sum of lines 11 & 12	2.5	4.4	.1	1.3	3.4	-10	665.9
14.	Commercial paper issued by nonfinancial firms	12.2	-3.2	-5.1	-15.1	-3.2	10	148.6
15.	Sum of lines 13 & 14	4.2	3.0	-.9	-1.8	2.2	-7	814.5
16.	Bankers acceptances: U.S. trade related[3,4]	-9.6	17.8	-24.3	-7.3	-69.5	n.a.	30.9
17.	Line 15 plus bankers acceptances: U.S. trade related	3.6	3.5	-1.8	-2.0	-.6	n.a.	845.4
18.	Finance company loans to business[3]	13.1	12.0	4.5	3.3	2.0	n.a.	294.3
19.	Total short- and intermediate-term business credit (sum of lines 17 & 18)	5.9	5.6	-.2	-.6	.0	n.a.	1139.7

1. Average of Wednesdays.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Based on average of data for current and preceding ends of month.
4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
p--preliminary.
n.a.--not available

cycle, the ability of banks to hold mortgage assets in the more liquid form of mortgage-backed securities could have magnified the swing from loans to securities while cushioning fluctuations in the flow of funds to the housing sector. Additionally, during the ongoing restructuring of the thrift industry, banks have been acquiring the deposits of resolved thrifts but not their assets; in the short run, government securities may have provided a natural repository for those funds.

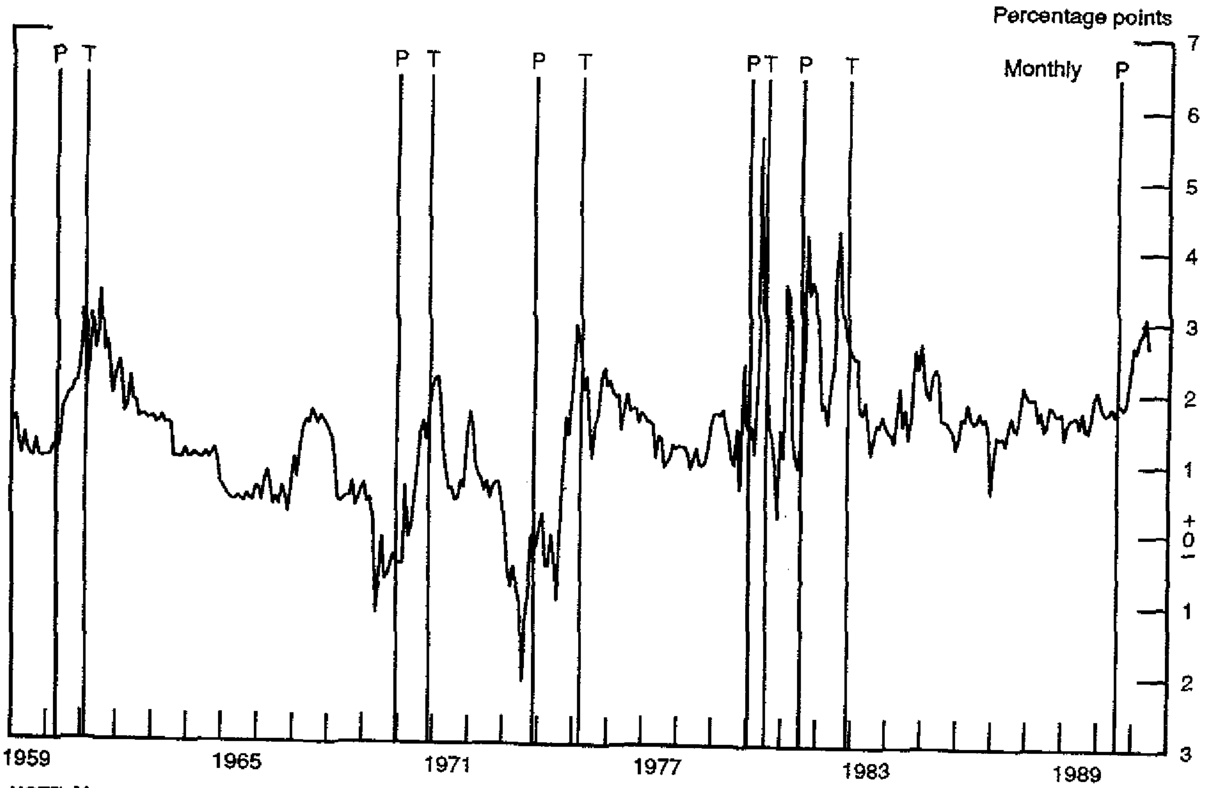
Real estate loans at banks grew at a 3 percent annual rate in April, about the same pace as in March. Consumer loans reported on commercial bank balance sheets declined again in April, but they would have increased a bit, absent securitization. Business loans dropped at a substantial 9 percent rate for the month; as the most recent survey of bank loan officers indicated only a modest further tightening of lending standards over the past three months,[1] this likely reflected weak loan demand. Business loans at both large and small domestic banks registered double-digit rates of decline. Growth at foreign-related banks slowed sharply, partly because transfers of loans from offshore branches (which had boosted growth in both February and March) stopped and partly because of a pullback by Japanese banks, which likely owed to the implementation of risk-based capital standards on March 31, the end of the Japanese fiscal year.

Pressures on the capital of domestic banks appear to have eased. The climate for bank issuance improved substantially over the past few months, and a number of institutions took advantage by issuing equity or subordinated debt. Thus far in 1991, commercial banks have taken pains to

1. Further details on the senior loan officer opinion survey are available in the Greenbook supplement.

guard their profit margins, keeping the prime rate high relative to the cost of funds. At 300 basis points above the federal funds rate for much of March and all of April, the 9-percent prime was in a region often associated with reductions--at least in the post-1982 experience. However, a longer perspective shows that this spread typically widens in an economic downturn (chart), perhaps reflecting heightened risk, banks' endeavors to protect profits, and the sluggish adjustment to generally declining short-term rates. May Day's 1/2-percentage-point cut in the prime made up some ground relative to the cost of funds, but a 275-basis-point spread still suggests that banks are stressing margins and risk avoidance over volume and market share.

Spread Between Prime and Federal Funds Rates



NOTE: Most recent observation is the average to date for May.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted,billions of dollars)

	1988	1989	1990	-1990- Q4	1991 Q1p	Febp	Marp	Aprp
Corporate securities - total <1>	22.41	19.86	19.80	22.09	25.74	28.63	31.03	27.83
Public offerings in U.S.	20.39	17.79	17.66	20.66	23.71	25.80	28.95	24.31
Stocks--total <2>	3.54	2.69	1.95	1.33	2.22	1.80	3.95	5.31
Nonfinancial	1.15	1.08	1.03	0.56	1.26	1.06	2.17	3.72
Utility	0.24	0.29	0.35	0.36	0.47	0.34	0.60	0.52
Industrial	0.91	0.79	0.68	0.20	0.79	0.73	1.57	3.20
Financial	2.39	1.60	0.92	0.77	0.93	0.74	1.69	1.59
Bonds	16.85	15.11	15.71	19.33	21.49	24.00	25.00	19.00
Nonfinancial	6.19	6.30	5.59	7.66	7.99	10.00	8.10	11.20
Utility	1.79	1.78	1.92	2.72	2.15	2.45	2.50	3.50
Industrial	4.41	4.52	3.67	4.94	5.84	7.55	5.60	7.70
Financial	10.65	8.80	10.11	11.67	13.50	14.00	16.90	7.80
By quality <3>								
Aaa and Aa	2.77	3.17	3.39	4.71	4.46	5.30	3.18	3.50
A and Baa	5.50	5.82	6.39	7.62	10.89	12.42	13.00	9.50
Less than Baa	2.56	2.39	0.15	0.11	0.41	0.31	0.55	2.30
No rating (or unknown)	0.05	0.05	0.04	0.01	0.01	0.00	0.03	0.01
Memo items:								
Equity-based bonds <4>	0.28	0.52	0.38	0.26	0.77	0.39	1.56	0.56
Mortgage-backed bonds	4.72	1.68	2.41	2.27	1.97	1.40	3.00	2.70
Other asset-backed	1.26	2.02	3.35	4.62	3.77	4.57	5.24	1.00
Variable-rate notes	1.19	1.03	0.82	1.13	0.76	0.65	1.61	0.18
Bonds sold abroad - total	1.93	1.90	1.92	1.42	1.87	2.80	2.00	2.50
Nonfinancial	0.73	0.48	0.46	0.17	1.03	1.50	1.30	0.80
Financial	1.20	1.43	1.46	1.25	0.83	1.30	0.70	1.70
Stocks sold abroad - total	0.09	0.16	0.22	0.02	0.17	0.03	0.08	1.02
Nonfinancial	0.08	0.12	0.10	0.02	0.05	0.01	0.08	0.92
Financial	0.02	0.04	0.12	0.01	0.11	0.03	0.00	0.10

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled $20.4 billion in 1989.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
p--preliminary.

Nonfinancial Business Finance

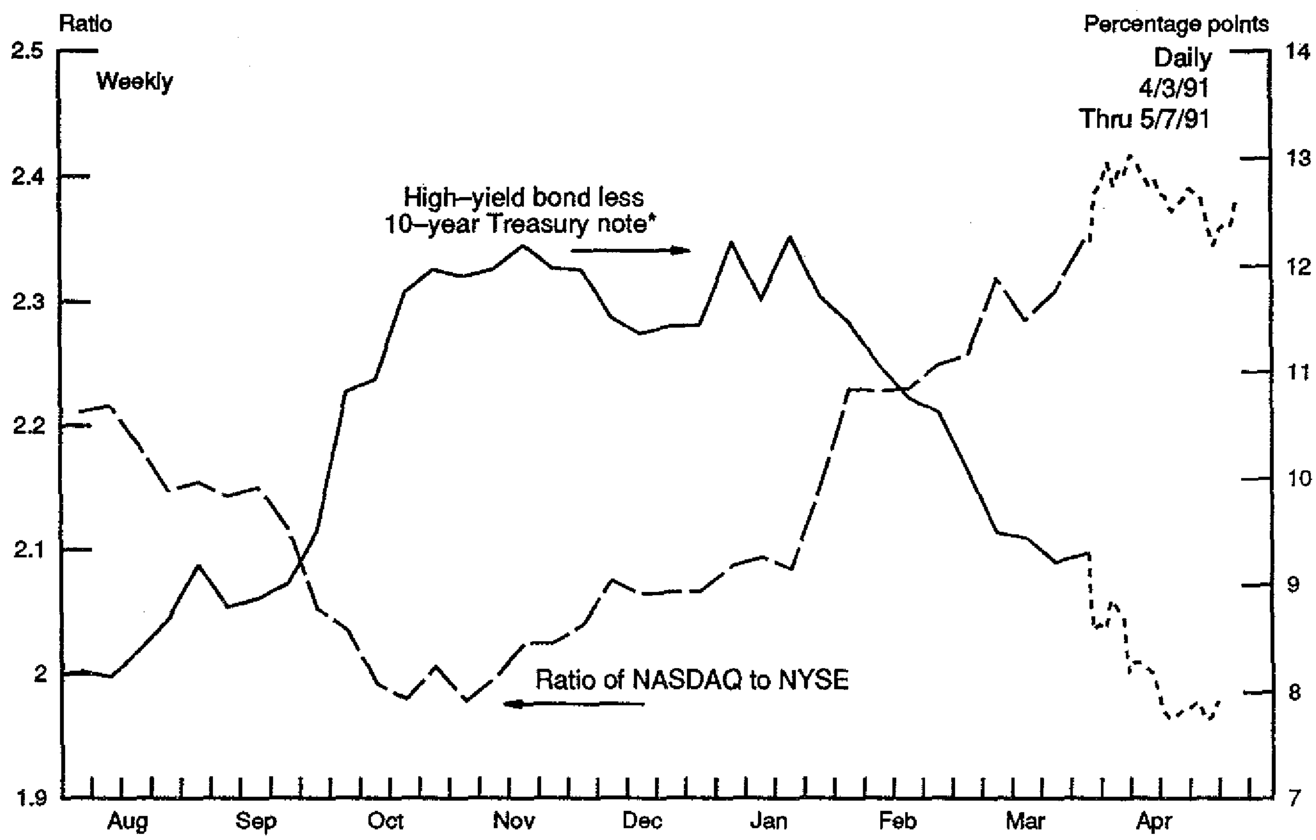
Despite the drop in bank C&I loans, total borrowing by nonfinancial businesses may have picked up a bit during the intermeeting period. Outstanding commercial paper of nonfinancial firms increased appreciably, and public offerings of corporate bonds surpassed March's rapid pace. The continued heavy bond issuance owed in part to the further narrowing of corporate bond spreads, which in turn attested to lessened investor concerns about credit quality.

The strength in bond issuance also reached down to the below-investment grade category, with RJR Nabisco and four other firms raising funds in the junk bond market in April. Three of the five bonds were convertible, their attractiveness thus hinging in part on bullish stock market sentiment. From the issuers' perspective, the response was encouraging; for example, RJR Nabisco was able to double their offering to $1.5 billion. (RJR had done well the previous week: Its first public offering of common stock since its 1989 leveraged buyout raised $1.3 billion. The combined proceeds will be used to pay down part of the high-yield debt issued in the original LBO.)

Since January, junk bond spreads have contracted by about one-third, placing one measure of return about 800 basis points above the ten-year Treasury yield (chart). Over that same period, prices of smaller capitalization stocks, such as those reflected in the NASDAQ index, rose relative to prices of larger capitalization stocks. Evidently, the prospects of smaller and more risky firms can be read either in relative equity performance or the junk bond spread.[2]

There remains a large amount of risk to be compensated for in this economic downturn: In the first quarter of 1991, thirty-two companies

Rate Spread and Relative Stock Price Indexes



*Merrill Lynch 175 high-yield composite less 10-year T-note.

2. A recently published study established this relationship more precisely: From 1977 to 1989, the correlation between price movements of low grade bonds and stocks was about one-half. To the extent that junk debt is close to a residual claim on the value of a firm (because it is low on the list of creditors), then junk spreads and equity prices (the value of a truly residual claim) would be correlated. Additionally, junk debt with convertible features becomes more valuable (the yield falls) when equity prices rise.

defaulted on more than $8 billion of low-grade debt, compared to nineteen companies and $5.7 billion in the same quarter last year. Moreover, corporate bond downgradings far exceeded upgradings in the first quarter, 278 to 39, largely reflecting the declining quality of low-grade issues.

Including RJR Nabisco, LBO alumni accounted for almost half of the nonfinancial equity issuance in April, which was an exceptionally strong $3.7 billion, the highest level of offerings since May 1986. Major stock price indexes reached record highs in the week of April 17 before retreating somewhat.

Financial Firms

Prices of financial stocks outperformed the broader market this intermeeting period, with money center and major regional bank stock indexes gaining as much as 11 percent on the strength of not-as-bad-as-feared first-quarter earnings reports. Securities firms, benefiting from the capital market's ebullience, also reported enhanced earnings that were rewarded by substantial gains in their equity prices.

Life insurance stock price indexes were little touched by the seizure of units of the First Executive Corporation by the state insurance commissioners of California and New York. That insurer's problems, mostly stemming from large holdings of distressed junk bonds, were well publicized and the commissioners' actions were widely anticipated. Both insurance units have been placed in conservatorship and, although moratoriums were declared on policy loans and surrenders, death benefits and annuity payments likely will continue. State guaranty associations are available to provide partial protection for outstanding life policies and annuities, while several insurance companies, in an effort to diffuse adverse publicity, also may contribute beyond their allotments in the state funds. The ultimate disposition of the insurance companies is unclear, although some hope remains that a foreign insurer may acquire them.[3]

However, nearly $2 billion of taxable municipal bonds are at risk from these developments, as the proceeds of those issues had funded the purchase of First Executive GICs. With the insurer now enjoined from making interest payments on the GICs, three of the outstanding issues have defaulted and others are expected to follow. Compounding bondholders' problems, many of the GICs may not be covered by state guaranty funds. One small issue is insured by MBIA, which stands to lose more than $17 million.

Municipal Securities

Despite the general decline in interest rates, gross long-term offerings of tax-exempt securities decreased slightly in April, owing to a slowdown in both new capital issues and refunding volume. Short-term issuance picked up a bit in April, boosted late in the month by a $1.25 billion offering by New York City. Just before the offering, Standard and Poor's lowered the credit rating on the issue, citing concern about a looming $3.6 billion deficit compounded by uncertainty over aid from New York State. In response to this deteriorating outlook, yields on the city's short-term notes have increased nearly 300 basis points in recent weeks.

Such financial stresses are not unique to New York. Downgradings of tax-exempt units outnumbered upgradings by a 3-to-1 margin in the first

3. More recently, there are growing indications that the insurance commissioner of California may take action against First Capital Holdings Corporation, a Los Angeles-based insurer that is roughly half the size of First Executive and similarly burdened with a depressed junk bond portfolio. The commissioner is pressuring American Express, which holds a 28 percent stake in the firm, to provide an infusion of capital.

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

	1989 Year	1990 Year	1990 Q4	1991 Q1	1991 Feb.	1991 Mar.	1991 Apr.[p]
Total offerings[1]	11.90	13.10	12.33	11.39	13.77	12.21	12.14
Total tax-exempt	11.65	12.85	11.96	11.25	13.44	12.16	12.00
Long-term	9.47	10.03	10.24	9.81	11.33	10.86	10.07
Refundings[2]	2.47	1.45	1.01	.77	.93	1.12	.68
New capital	7.01	8.60	9.23	9.04	10.40	9.74	9.39
Short-term	2.17	2.82	1.72	1.44	2.11	1.30	1.93
Total taxable	.25	.25	.37	.14	.33	.05	.14

p--preliminary.
1. Includes issues for public and private purposes; also includes taxable issues.
2. Includes all refunding bonds, not just advance refundings.

quarter of 1991, with housing-related issues hit hardest. Lowered ratings of financial institutions providing credit enhancements have hastened the process. Recession-induced declines in tax revenues, as well as escalating Medicaid costs, apparently are at the root of the financial problems of a growing number of states and have led Standard and Poor's to place a record seven states on its CreditWatch list.

Treasury and Sponsored Agency Financing

The staff projects a federal deficit of about $29 billion in the second quarter, reflecting seasonal tax inflows that result in light financing needs by recent experience. Marketable borrowing is expected to raise $39 billion, with bills paying down roughly $12 billion and coupons raising $51 billion. From February through mid-April, the Treasury cut back sharply on the gross sizes of its bill and short-term coupon auctions in order to offset the effects on its cash balance of the earlier-than-anticipated

TREASURY AND AGENCY FINANCING[1]
(Total for period; billions of dollars)

	1991				
	Q1	Q2[p]	Apr.[e]	May[p]	June[p]
Treasury financing					
Total surplus/deficit (-)	-65.2	-29.0	31.1	-58.3	-1.7
Means of financing deficit:					
Net cash borrowing from the public	56.5	41.7	-10.6	28.4	23.9
Marketable borrowings/ repayments (-)	52.9	39.2	-11.3	28.2	22.3
Bills	5.9	-11.7	-29.1	-5.0	22.3
Coupons	47.0	50.9	17.7	33.2	0.0
Nonmarketable[2]	3.5	2.5	.7	.2	1.6
Decrease in the cash balance	.2	-6.0	-16.3	35.4	-25.1
Memo: Cash balance at end of period	32.0	38.0	48.3	13.0	38.0
Other[3]	8.5	-6.7	-4.2	-5.4	2.9
Federally sponsored credit agencies, net cash borrowing[4]	3.2	--	--	--	--
FHLBs	-5.6	--	--	--	--
FHLMC	.5	--	--	--	--
FNMA	1.5	--	--	--	--
Farm Credit Banks	-1.7	--	--	--	--
SLMA	1.6	--	--	--	--
REFCORP	6.9	--	--	--	--

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes proceeds from securities issued by federal agencies under special financing authorities and the face value of zero-coupon bonds issued to REFCORP (the discount from face value is offset in other means of finance).
3. Includes checks issued less checks paid, accrued items and other transactions.
4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
e--estimated.
Note: Details may not add to totals due to rounding.

Desert Storm receipts and the lull in RTC activities.[4] Over this period, the weekly bill auctions were cut from $20 billion to $14.4 billion, while short-term coupon auctions were scaled back by $500 million. In the last two weeks, however, the Treasury has reversed course: The weekly bill auction sizes have been boosted to $17.2 billion, while short-term coupon auctions have been increased by $500 million. Moreover, the May midquarter refunding includes a record $37 billion of securities. The staff anticipates further increases in bill and coupon auction sizes, with weekly bill auctions projected to reach $21 billion by the end of the quarter.

Congressionally mandated reports on the safety and soundness of the GSEs were released by the Treasury and the Congressional Budget Office (CBO) on April 30th. The General Accounting Office (GAO) has a similar report due out on May 15th, and a Senate committee is scheduled to hear testimony on all three reports on May 10th. The CBO report discusses specific regulatory options, including increasing the securitization fees charged by Fannie and Freddie. The GAO report will do the same and is expected to recommend the formation of a so-called "super-regulator" to oversee all of the GSEs. The super-regulator would be given the authority to set capital standards that would involve both "stress-test" simulations and minimum leverage ratios.

Treasury's report stressed the need for consistent regulation across GSEs, which would include the authority to use private market methods to evaluate portfolio risks, and regulators with sufficient stature to avoid capture by the GSEs. The report did not reaffirm the recommendation, made

4. The RTC resolved only one institution in April, at a cost of $1.8 billion, but has announced plans for 99 thrift resolutions in the second quarter. The delay in obtaining funding, however, and the slow pace of resolutions to date cast some doubt on the prospects for fulfilling these plans.

in last year's report, that GSEs be required to obtain a triple-A credit rating or risk the severing of all government ties.[5] Instead, the Treasury report recommended (1) a separate "arms length" bureau of HUD be created for financial oversight of Fannie and Freddie; (2) Treasury be given additional financial oversight authority for Sallie Mae; and (3) regulators should have the authority to promulgate risk-based capital standards. In addition to its report, Treasury is required to propose specific legislation, which is expected to be unveiled at the Senate hearing in May.

Mortgage Markets

Real estate loan growth at commercial banks ran at a 3 percent annual rate in April, about at its first-quarter pace, while funding data suggest that the runoff in mortgage holdings at SAIF-insured thrift institutions likely has continued. Although these data indicate little pickup in mortgage lending thus far in the current quarter, survey and anecdotal evidence point to some strengthening in mortgage activity. Respondents to the most recent survey of bank loan officers reported an appreciable increase in mortgage loan demand over the past three months, while prepayment rates on securitized FHA and VA loans rose markedly in April.[6]

The average contract rate on conventional FRMs declined only a few basis points over the intermeeting period. With the continuing steepening

5. Treasury did, however, hire Standard & Poor's to assess the risk to the government posed by the GSEs, and the report contains an appendix describing the results of S&P's credit ratings of the GSEs. SLMA and the FHLBanks have been rated at the high end of investment grade, FHLMC and FNMA have been rated investment grade, and the Farm Credit System has been rated below investment grade.

6. The FHA reported that refinanced loans accounted for 8 percent of the number of FHA-insured applications endorsed for existing homes in March, up from an average of about 5 percent in the fourth quarter of 1990. In contrast, the refinancing wave of 1986-87 boosted the refinancing share of both FHA-insured loans to more than 35 percent.

of the yield curve, the FRM-ARM initial rate spread has widened to around 215 basis points. Nonetheless, borrowers continue to show an aversion to ARMs, which accounted for only 19 percent of loans closed during early March.

In the secondary mortgage market, issuance of agency pass-throughs increased in March to $18.5 billion (table). Spreads between yields on agency pass-throughs and comparable Treasuries remain narrow nevertheless, owing in part to heavy CMO volume boosting the demand for pass-through collateral.

MORTGAGE-BACKED SECURITY ISSUANCE
(Monthly averages, billions of dollars, NSA unless noted)

	Federally related pass-through securities			Multiclass securities				
	Total (SA)	Fixed-Rate	ARM-backed	Total	Private issues[1]	FNMA REMICs	FHLMC REMICS	Agency strips
1989	16.5	14.1	2.6	8.1	1.4	3.1	3.2	.3
1990 r	19.7	17.3	2.3	11.3	2.4	5.0	3.4	.5
1990-Q1	21.5	18.5	1.4	11.3	1.6	5.0	3.8	.9
Q2	19.9	16.3	2.2	11.1	2.9	4.7	3.0	.4
Q3	18.2	17.6	1.6	12.1	2.7	6.6	2.3	.6
Q4 r	19.0	16.6	4.1	10.9	2.3	3.9	4.5	.3
1991-Q1 p	16.8	14.1	1.5	8.4	1.5	4.0	2.8	.1
1990-Oct.	18.4	16.7	2.5	14.2	2.2	5.6	5.7	.6
Nov.	18.7	17.8	2.6	8.4	2.3	3.8	2.1	.2
Dec. r	19.9	15.5	7.1	10.2	2.3	2.4	5.5	.0
1991-Jan. r	15.8	13.1	0.7	4.9	1.5	2.4	1.2	.2
Feb. r	16.1	14.0	1.1	8.3	1.4	3.2	3.6	.2
Mar. p	18.5	15.2	2.8	11.7	1.7	6.3	3.7	.0

1. Excludes pass-through securities with senior/subordinated structures.
r--revised p--preliminary n.a.--not available.

Revised May 6, 1991

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)								Memo: Outstandings (billions of dollars)
				1990		1991	1991		1991
	1988	1989[1]	1990	Q3	Q4	Q1	Feb.[r]	Mar.[p]	Mar.[p]
Total installment	8.8	5.9	2.3	2.8	-.2	-1.8	-.3	-1.5	731.8
Installment, excluding auto	10.2	9.2	5.2	7.6	.5	.9	2.5	3.6	451.5
Selected types									
Auto	6.9	1.3	-2.1	-4.4	-1.5	-6.0	-4.7	-9.7	280.3
Revolving	13.7	15.2	10.6	13.3	1.9	8.5	10.8	17.6	224.8
All other	7.4	4.5	.6	2.3	-.7	-6.4	-5.5	-9.9	226.7
Memorandum:									
Total[2]	7.2	5.5	1.7	.8	-.7	-2.7	-.6	-4.6	789.0

1. Growth rates are adjusted for discontinuity in data between December 1988 and January 1989.
2. Installment plus noninstallment.
r--revised. p--preliminary.
Note: Details may not add to totals due to rounding.

CONSUMER INTEREST RATES
(Annual percentage rate)

			1990		1991		
	1989	1990	Nov.	Dec.	Jan.	Feb.	Mar.
At commercial banks[1]							
New cars (48 mo.)	12.07	11.81	11.72	...	...	11.60	...
Personal (24 mo.)	15.44	15.46	15.69	...	...	15.42	...
Credit cards	18.02	18.17	18.23	...	...	18.28	...
At auto finance cos.[2]							
New cars	12.62	12.54	12.74	12.86	12.99	13.16	13.14
Used cars	16.18	15.99	16.07	16.04	15.70	15.90	15.82

1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

Consumer Credit

In March, consumer installment credit contracted for the fourth consecutive month, resulting in a 1-3/4 percent annual rate of decline for the first quarter.[7] After slowing precipitously in the fourth quarter of 1990, revolving credit (which consists mainly of credit card receivables and unsecured lines of credit) picked up briskly in February and March. Earlier weakness in revolving credit appears to be related to accelerated repayments of outstanding debt. A significant fall off in these repayments could account for some of the rebound in revolving credit, although recent contacts with retailers and banks paint a mixed picture concerning the pattern of repayments.

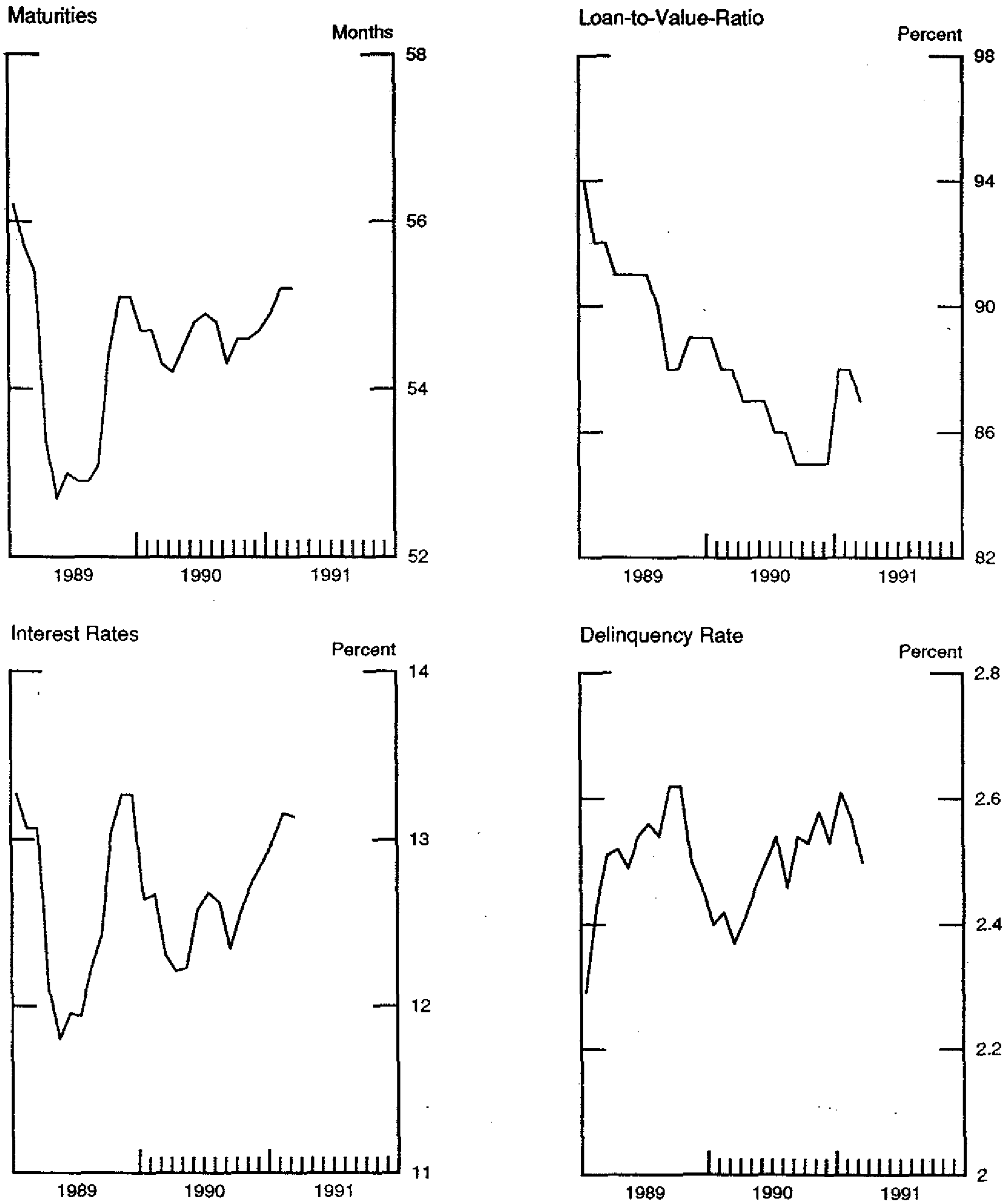
Auto loans declined at a 9-3/4 percent rate in March and at a 6 percent rate for the quarter as a whole, steepening the slide in auto credit that began in the fall of 1989. There is mixed evidence on apportioning the first-quarter slowdown among weakened car sales, shifts toward leasing, and tightened lending standards on the part of banks and auto finance companies. Leasing evidently has become a bigger factor in the consumer sector as automakers recently have enhanced their attractiveness.[8] With regard to lending standards, little evidence is available for banks, but nonrate terms at the auto finance companies do not appear to have tightened much this year. The average maturity on booked new-car loans has lengthened slightly

7. Since the last Greenbook, the consumer credit series have been rebenchmarked, with revisions in some components carried back to 1988. Revisions were relatively small on the whole, raising growth in total installment credit about 1/2 percentage point for 1989 and reducing it about 3/4 percentage point for 1990. The slowdown during 1990 now appears more consistent with the varying pace of overall economic activity.

8. For example, in an effort to pare monthly payments, General Motors has reduced the implicit financing rate and raised the residual value of the vehicle for most leases.

since last summer, and loan-to-value ratios have moved a little higher since the beginning of the year (chart). On the other hand, some evidence supports newspaper reports that the captives may have become less aggressive in their loan pricing: Average interest rates on loans at these companies have risen almost a percentage point since September. While the pinch of rising delinquency rates last year may have led the auto finance companies to lend more cautiously, delinquencies were no higher early this year than they were in the fall of 1989, suggesting that loan rates rose on a risk-adjusted basis.

Auto Loan Terms and Payment Experience At Captive Auto Finance Companies



INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade

The U.S. merchandise trade deficit narrowed to $5.3 billion in February (on a seasonally adjusted, Census basis) from a revised deficit of $7.2 billion in January. The February figure was the smallest monthly deficit registered since last June. The narrowing reflected a fall in the value of imports of 6-1/2 percent, with a drop in oil prices of nearly $4 per barrel accounting for more than half of the decline; imports of automotive products and industrial supplies also declined sharply. In addition, the value of nonagricultural exports dropped in February (largely capital goods and automotive products to Canada), falling 3-1/2 percent from the strong level recorded in January. Data for March will be released on May 17.

U.S. MERCHANDISE TRADE: MONTHLY DATA
(Billions of dollars, seasonally adjusted, Customs basis)

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil (nsa)	NonOil	Balance
1990-Jan	31.4	3.6	27.8	41.6	5.9	35.6	-10.2
Feb	31.6	3.4	28.1	38.7	4.8	33.8	-7.1
Mar	33.3	3.7	29.5	41.6	4.8	36.8	-8.4
Apr	32.1	3.3	28.8	39.4	3.9	35.5	-7.3
May	32.8	3.3	29.5	40.5	4.4	36.2	-7.8
Jun	34.2	3.6	30.7	39.6	3.9	35.7	-5.3
Jul	32.1	3.1	29.0	41.2	4.1	37.2	-9.1
Aug	32.5	3.4	29.2	42.3	5.3	37.0	-9.7
Sep	32.0	3.0	29.0	41.3	6.2	35.1	-9.3
Oct	35.0	3.0	32.0	46.0	7.0	39.0	-11.0
Nov	34.2	3.3	30.9	43.1	6.4	36.7	-8.9
Dec	33.3	2.9	30.4	39.6	5.4	34.2	-6.3
1991-Jan-r	34.3	3.1	31.3	41.5	5.3	36.1	-7.2
Feb-p	33.5	3.3	30.2	38.8	3.8	35.0	-5.3

r--revised. p--preliminary.
Source: U.S. Department of Commerce, Bureau of the Census.

U.S MERCHANDISE TRADE: QUARTERLY DATA
Billions of dollars, BOP-basis

	Years		1990 (saar)			1991	Memo: Percent Change 1990:Q4 from	
	1989	1990	Q2	Q3	Q4	Q1-e	Prev. Qtr.	Year Ago
Exports	360	389	386	385	402	403	4.5	9.5
Imports	475	498	479	504	517	487	2.7	7.3
Oil	51	62	49	63	75	56	19.6	40.4
Non-oil	424	436	431	441	442	431	0.3	3.2
Balance	-115	-109	-93	-119	-115	-85		
Ex Oil	-64	-47	-44	-57	-41	-28		

e--Estimate based on data for the first two months of the quarter.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Balance-of-Payments Accounts.

On a balance of payments basis, the deficit for January-February combined was significantly smaller than in the fourth quarter of last year, reflecting a substantial decline in oil imports and a smaller decline in imports of non-oil products. The drop in oil imports was accounted for by lower prices, as the price of imported oil fell almost $7 per barrel between the fourth quarter and January-February. The price of oil imports as published by the BLS (shown in a table at the end of the text) indicates a drop of about another $1 per barrel in March. Most recently, spot prices of West Texas Intermediate crude oil have edged up a bit, fluctuating between

OIL IMPORTS
(BOP basis, value at annual rates)

	1990			Months				
	Q3	Q4	Q1-e	Oct	Nov	Dec	Jan-r	Feb-p
Value (Bil. $)	62.57	74.84	54.75	83.92	77.12	63.47	64.00	45.50
Price ($/BBL)	19.67	28.60	21.46	29.27	29.60	26.30	23.56	19.35
Quantity (mb/d)	8.65	7.16	7.15	7.71	7.24	6.49	7.30	7.00

p--preliminary. r--revised.
e--Estimate based on data for the first two months of the quarter.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

$20 and $22 per barrel in April and early May. The quantity of oil imported during January-February did not differ significantly from that imported during the fourth quarter of last year, as continued stock drawdowns (especially in January) and weak economic activity restrained imports.

Much of the 3 percent drop in imports of non-oil products between the fourth quarter and January-February was in consumer goods, automotive products, and capital goods, and reflected weakening U.S. demand. Exports in January-February rose slightly from the strong level registered in the fourth quarter, as increases in the value of exported consumer goods, fuels, chemicals, computers, and agricultural products were largely offset by declines in commercial aircraft and automotive products to Canada. The strength of exports in the fourth quarter was largely stimulated by the cumulative gains in price competitiveness associated with the significant decline in the dollar in 1989 and 1990.

Prices of Non-oil Imports and Exports

The fixed-weight price index for non-oil imports, reported in the GNP accounts, rose 3.1 percent at an annual rate during the first quarter, a slower rate of increase than recorded during the fourth quarter. The deceleration in prices was evident in most major end-use groupings, and likely reflects in part the shift in the dollar from depreciation in the fourth quarter to appreciation in the first quarter.

Prices of exports rose less rapidly, increasing only 0.7 percent at an annual rate during the first quarter. Prices of agricultural exports moved up 7.8 percent at an annual rate, led by increases in the prices of exported fruits, feedgrains, and rice. In contrast, prices of nonagricultural exports posted a decline, as price increases for exported capital goods, consumer goods, and automotive products were more than offset by a decline in the price of exported industrial supplies.

MAJOR TRADE CATEGORIES
(Billions of dollars, BOP basis, SAAR)

	Year	1990				1991	$ Change	
	1990	Q1	Q2	Q3	Q4	Q1-e	Q4-Q4	Q4-Q3
Total U.S. Exports	389.3	384.4	386.3	384.6	401.8	403	34.9	17.2
Agricultural Export	40.4	43.8	41.3	38.9	37.5	39	-3.4	-1.4
Nonagric. Exports	348.9	340.6	345.1	345.7	364.3	364	38.3	18.6
Industrial Supplies	97.4	94.0	92.6	95.3	107.6	108	18.6	12.3
Gold	3.8	2.6	3.6	3.7	5.1	5	2.9	1.4
Fuels	13.9	12.6	11.0	13.7	18.1	19	5.9	4.4
Other Ind. Supp.	79.7	78.7	77.9	77.9	84.4	85	9.7	6.5
Capital Goods	153.9	153.0	154.5	152.4	155.8	153	15.1	3.4
Aircraft & Parts	32.3	32.3	34.5	31.4	31.0	28	5.0	-0.4
Computers & Parts	26.0	26.5	24.9	26.2	26.2	27	1.4	-0.1
Other Machinery	95.7	94.3	95.1	94.7	98.6	97	8.6	3.9
Automotive Product	36.6	34.9	38.7	36.5	36.3	35	0.7	-0.1
To Canada	21.9	21.0	23.6	22.1	20.9	20	-1.8	-1.2
To Other	14.7	13.9	15.1	14.4	15.4	14	2.5	1.0
Consumer Goods	43.0	40.6	41.9	43.6	45.7	46	7.8	2.1
Other Nonagric.	18.1	18.0	17.4	17.9	18.9	22	-3.8	1.0
Total U.S. Imports	498.0	491.6	479.2	503.8	517.3	487	35.3	13.5
Oil Imports	62.1	62.4	48.7	62.6	74.8	56	21.5	12.3
Non-Oil Imports	435.9	429.2	430.6	441.2	442.4	431	13.8	1.3
Industrial Supplies	82.3	80.3	82.1	83.3	83.7	82	0.5	0.5
Gold	2.5	1.7	2.1	2.8	3.4	4	-0.9	0.6
Other Fuels	3.4	3.1	3.1	3.4	3.9	4	0.2	0.5
Other Ind. Supp.	76.5	75.5	76.9	77.1	76.4	75	1.3	-0.7
Capital Goods	117.2	115.6	115.6	116.7	121.1	120	4.5	4.3
Aircraft & Parts	10.6	9.2	10.5	9.9	12.9	11	2.3	3.0
Computers & Parts	23.0	23.1	22.8	23.1	23.2	24	-0.2	0.1
Other Machinery	83.6	83.3	82.3	83.7	84.9	85	2.5	1.2
Automotive Product	86.1	83.7	84.6	90.5	85.7	84	2.7	-4.8
From Canada	29.6	27.4	30.5	33.1	27.4	23	-2.2	-5.7
From Other	56.5	56.3	54.1	57.4	58.3	61	4.9	0.9
Consumer Goods	106.2	104.8	104.4	107.3	108.4	103	2.0	1.1
Foods	26.6	27.9	26.9	25.6	26.2	26	1.2	0.6
All Other	17.3	17.0	16.9	17.7	17.3	16	2.8	-0.4

e--Estimate based on data for the first two months of the quarter.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

IMPORT AND EXPORT PRICE MEASURES
(percent change from previous period, annual rate)

	Year	Quarters			Months	
	1991-Q1	1990		1991	1991	
	1990-Q1	Q3	Q4	Q1	Feb	Mar
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	3.3	10.2	24.9	-12.3	-2.0	-0.4
Foods, Feeds, Bev.	3.7	7.4	5.2	7.6	-1.0	1.0
Industrial Supplies	2.8	31.7	77.1	-41.0	-7.4	-2.2
Ind Supp Ex Oil*	0.4	-1.5	2.7	-0.3	-0.2	0.0
Capital Goods	4.8	3.8	8.2	4.8	0.1	0.7
Automotive Products	3.6	3.3	10.3	6.5	1.5	0.6
Consumer Goods	2.7	-0.3	4.5	2.3	0.1	-0.5
Memo:						
Oil	7.0	134.1	307.2	-73.9	-18.7	-6.6
Non-oil	3.0	1.8	6.3	3.6	0.3	0.2
Exports, Total	2.0	1.7	4.4	0.6	-0.1	-0.1
Foods, Feeds, Bev.	-3.9	-13.1	-16.5	8.5	0.6	1.0
Industrial Supplies	1.8	5.2	15.9	-9.8	-1.1	-1.2
Capital Goods	3.1	3.3	2.1	5.6	0.4	0.4
Automotive Products	2.7	1.9	3.5	3.5	0.3	0.4
Consumer Goods	3.6	1.6	3.7	6.0	0.4	0.1
Memo:						
Agricultural	-3.3	-11.9	-14.2	6.9	0.4	0.4
Nonagricultural	2.7	3.9	7.9	-0.7	-0.2	-0.3
	------------Prices in the GNP Accounts------------					
Fixed-Weight						
Imports, Total	2.4	15.8	34.4	-19.5	--	--
Oil	1.9	135.7	346.2	-76.3	--	--
Non-oil	2.5	3.9	5.3	3.1	--	--
Exports, Total	2.2	0.8	5.7	0.7	--	--
Ag	-1.4	-10.1	-11.8	7.8	--	--
Nonag	2.9	3.1	9.5	-0.5	--	--
Deflators						
Imports, Total	1.0	11.3	27.1	-19.5	--	--
Oil	1.9	135.2	345.0	-76.3	--	--
Non-oil	-0.6	2.1	0.6	-4.0	--	--
Exports, Total	0.2	-3.9	3.6	-3.3	--	--
Ag	-1.4	-10.1	-11.8	7.8	--	--
Nonag	0.6	-3.1	5.6	-4.3	--	--

*/ Months not for publication.

U.S. International Financial Transactions

In the first two months of the year, a very large net capital inflow through official transactions and private foreign purchases of Treasury securities was only partially offset by outflows through banks and U.S. purchases of foreign securities. Indicators for March point to sizable outflows through banks and a reduction in foreign official holdings; however, it is unlikely that these outflows will be large enough to offset the earlier inflows and the current account surplus anticipated for the quarter. As a result, we expect a negative statistical discrepancy in the first quarter, reversing in part the large positive discrepancy of 1990.

Official reserves in the United States rose more than $9 billion in February, adding to the $8 billion increase in January (line 4 of the Summary table). Almost $8 billion of the February rise is attributable to increases by Italy, Spain, and the United Kingdom. The increase in U.K. reserves held in the United States coincided with an increase in its total reserves following an ECU 2-3/4 billion bond offering. The increase in Spain's holdings in the United States reflected further expansion of that country's total reserves, while the increase in Italy's holdings apparently reflected a shifting of dollar assets to the United States from other markets.

Partial data for March from the FRBNY indicate official reserves fell $12-1/2 billion in the month. More than $11 billion of this decline was in holdings of Japan and Germany, reflecting both Desert Storm payments and intervention sales of dollars. OPEC countries also reduced their holdings in the United States in March as they made cash contributions for Desert Storm.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1989 Year	1990 Year	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1990 Dec.	1991 Jan.	1991 Feb.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	27.2	30.7	8.1	2.3	21.4	-1.0	10.9	2.0	-4.4
Securities									
2. Private securities transactions, net[1]	15.4	-28.4	-7.6	-9.4	-3.9	-7.5	-6.0	-0.8	-5.2
a) foreign net purchases (+) of U.S. corporate bonds[2]	32.0	16.4	4.7	5.8	-0.1	6.0	1.7	0.4	-0.5
b) foreign net purchases (+) of U.S. corporate stocks	7.9	-13.7	-3.1	-3.4	-2.3	-5.0	-1.1	-0.5	0.4
c) U.S. net purchases (-) of foreign securities	-24.5	-31.0	-9.3	-11.7	-1.6	-8.5	-6.6	-0.6	-5.0
3. Foreign net purchases (+) of U.S. Treasury obligations	30.1	1.6	-1.0	4.4	0.1	-1.9	-2.7	3.8	5.4
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	8.3	31.4	-6.7	4.7	13.6	19.9	3.4	8.2	9.4
a) By area									
G-10 countries	-5.2	9.8	-6.2	-0.9	8.6	8.4	4.0	-2.3	2.4
OPEC	10.1	1.8	3.1	*	-1.4	0.1	-0.8	0.4	0.6
All other countries	3.4	19.8	-3.7	5.6	6.4	11.4	0.2	10.1	6.5
b) By type									
U.S. Treasury securities	0.1	29.3	-5.8	2.5	11.8	20.8	6.9	6.6	7.4
Other[3]	8.2	2.1	-0.9	2.2	1.8	-0.9	-3.6	1.6	2.0
5. Changes in U.S. official reserve assets (+ = decrease)	-25.3	-2.2	-3.2	0.4	1.7	-1.1	-0.6	-0.5	0.7
Other transactions (Quarterly data)[4]									
6. U.S. direct investment (-) abroad	-31.7	-36.4	-9.3	-4.8	-19.3	-3.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	72.2	25.7	5.5	7.2	11.9	1.1	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[5]	-8.6	3.9	14.1	-11.0	-1.2	1.9	n.a.	n.a.	n.a.
9. U.S. current account balance	-110.0	-99.3	-22.3	-22.7	-26.5	-27.8	n.a.	n.a.	n.a.
10. Statistical discrepancy	22.4	73.0	22.4	28.9	2.2	19.4	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-114.9	-108.7	-26.8	-23.2	-29.8	-28.9	n.a.	n.a.	n.a.

1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
2. Includes all U.S. bonds other than Treasury obligations.
3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
4. Seasonally adjusted.
5. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by the Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.
*--Less than $50 million.
NOTE: Details may not add to total because of rounding.

Private foreign purchases of Treasury securities remained strong in February at $5-1/2 billion (line 3), including a $2 billion purchase by the World Bank. Purchases by Japanese residents remained near their January level of $1-3/4 billion. In contrast to their net purchases of Treasury securities, private foreigners sold corporate and agency bonds in February (line 2a), despite large increases in both domestic and Eurobond issuances by U.S. corporations. Foreigners made net purchases of U.S. stocks in February for only the second month since October 1989. While the net purchases were modest at $1/2 billion, the volume of transactions in the month rose considerably to a level 50 percent above the average level in 1990.

U.S. residents purchased on net $5 billion of foreign securities in February (line 2c). Over $3 billion of the outflow was in purchases of foreign stocks; most of these purchases were of Japanese stocks.

Banks reported net outflows of $4-1/2 billion in February (line 1). Increased claims on nonbank foreigners outweighed net interbank inflows. On a monthly average basis, U.S. banks' claims on own foreign offices decreased by $5 billion in March (line 1 of the International Banking Table), indicating a net inflow of capital. Data for most of April point to a partial rebound in these claims, leading to little change between February and April.

On an end-of-month basis, which is used in the balance-of-payments accounts, banks reported a $7 billion outflow vis-a-vis their own foreign offices in March. This outflow was more than accounted for by changes at the U.S. offices of foreign-based banks. The pattern of bank flows at the end of March was unusual. In the past banks generally have reduced net

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1989				1990				1991		
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Feb.	Mar.	Apr. */
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-2.9	-3.9	-6.4	-5.5	-11.7	-11.0	-15.6	-31.3	-18.9	-23.7	-20.0
(a) U.S.-chartered banks	20.4	19.2	14.9	19.2	12.2	7.2	5.7	5.5	16.5	7.6	6.1
(b) Foreign-chartered banks	-23.3	-23.1	-21.3	-24.7	-23.9	-18.2	-21.3	-36.9	-35.4	-31.3	-26.0
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	24.0	26.0	21.6	20.7	21.8	22.2	24.0	24.7	25.7	26.0	25.3
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	144.8	131.5	130.3	123.5	110.6	106.5	109.1	115.9	114.6	115.9	114.5

1. Includes term and overnight Eurodollars held by money market mutual funds. Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 is an average of daily data for the overnight component and an average of Wednesday data for the term component.

* Data through April 22.

claims on own foreign offices toward the end of the first quarter, to fund an increase in their balance sheets for reporting purposes, and then increased claims in early April. This year foreign-based banks reversed the pattern, perhaps as a result of the application of new capital adequacy requirements at the end of Japanese banks' fiscal year in March.

Foreign Exchange Markets

The weighted-average foreign exchange value of the dollar has appreciated only a bit more than 1 percent on balance since the March FOMC meeting, despite large swings in the interim. Relative to its February low, the dollar is up 15 percent. As illustrated in the accompanying chart, the dollar depreciated in early April amid anticipations that the Federal Reserve would ease monetary conditions in response to the March employment report, which the market expected to show continued weakness. In the event, the Federal Reserve did not ease despite a poor report, and the dollar stabilized temporarily.

The dollar began to rise sharply in mid-April, especially against the mark and other European currencies. Market expectations of a possible tightening by the Bundesbank were unfulfilled, while the possibility of further easing by the Federal Reserve was perceived as fading. The mark was further depressed by the loss in local elections of Chancellor Kohl's party in Kohl's home state and the consequent loss of control of Germany's upper house, and by escalating turmoil in the Soviet Union.

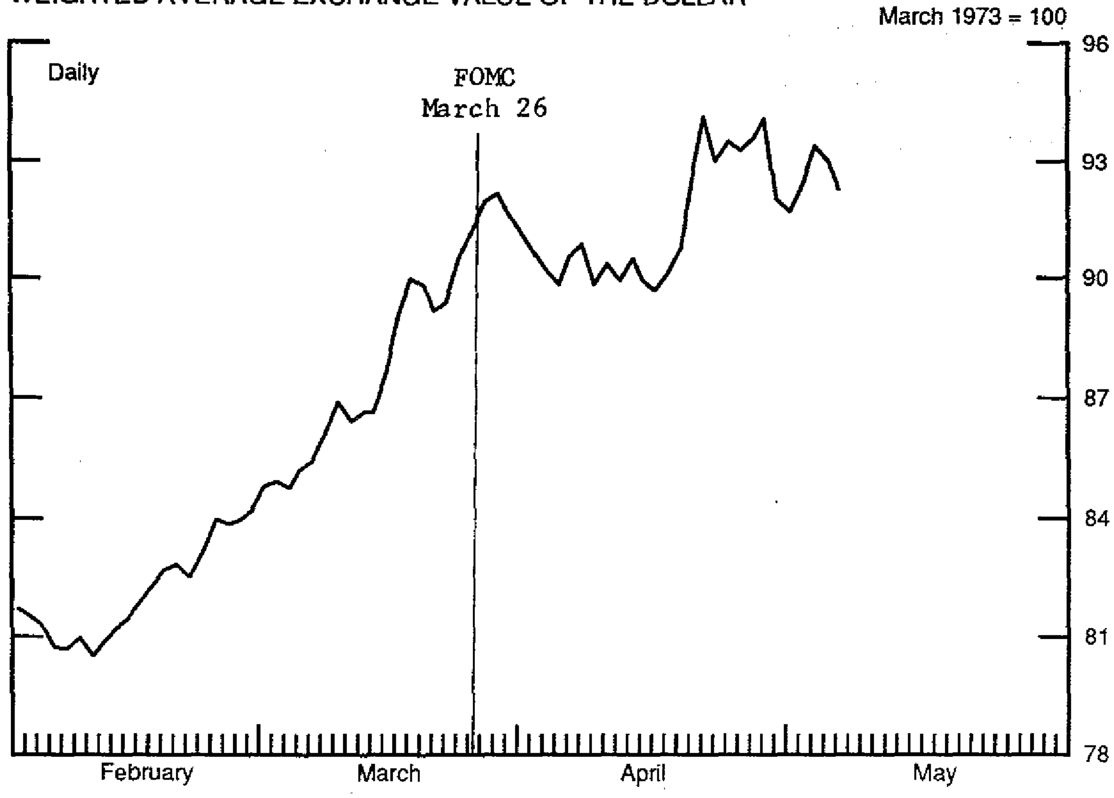
Late in the period, the dollar retraced most of its intermeeting gains when the Federal Reserve unexpectedly eased monetary conditions at the end of April after the G-7 meeting failed to produce a coordinated cut in interest rates. Subsequently, the dollar rallied temporarily following the release of better-than-expected U.S. employment data for April.

The dollar's movements against the yen were much less volatile than against the mark. Throughout most of the intermeeting period, the yen was supported by perceptions that the Bank of Japan would delay any easing of monetary conditions. Once the Federal Reserve eased, some market participants expected the Bank of Japan to follow, and the yen declined somewhat. For the intermeeting period as a whole, the dollar appreciated 1-1/2 percent against the mark, but depreciated 1/2 percent against the yen.

On balance, movements in bond yields in the United States and in major foreign countries were small. Three-month interest rates in the United States declined by much more than those in Germany and Japan, though not as much as those in the United Kingdom. In mid-April, the Bank of England cut its money market intervention rate by 1/2 percentage point to just below 12 percent, the fourth such move since early February. In Germany, the Bundesbank nudged up the rate at which it does its RP operations by 10 basis points.

. The Desk did not intervene.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



Developments in Foreign Industrial Countries

Economic activity in the first quarter continued to be weak in many major foreign industrial countries. The Japanese economy has been sluggish; industrial production, housing starts, orders, and new passenger car registrations have declined in recent months of data. In Germany, recent indicators have been mixed; industrial production showed strength in the first quarter, while new orders have been weak. The pace of activity also slowed in France and Italy, and recessions in the United Kingdom and Canada continued with little evidence of recovery. With the exception of western Germany, unemployment has risen in all these countries.

Despite lower oil prices in the first quarter, consumer price inflation picked up in several foreign industrial countries. Inflation increased slightly in Germany, Italy, and Canada, but moderated in Japan and France. Special factors, such as higher excise taxes in the United Kingdom and Canada, account partly for such increases in these countries.

Changes in foreign trade balances and current accounts were mixed. Japan's trade surplus in the first quarter expanded (on a year/year basis) for the first time since early 1989. Germany tallied a current account deficit in the first two months of the year owing largely to transfers related to the Gulf War, although the trade surplus has also been lower.

Individual Country Notes. In Japan, data released recently have provided further evidence of a slowing of the pace of activity in the first quarter. Industrial production (s.a.) declined 1.3 percent in March and, for the first quarter as a whole, was down 0.2 percent from the fourth quarter. New passenger car registrations (s.a.) dropped 8.2 percent in March; their average in the first quarter was 1 percent below that in the fourth quarter. Housing starts (s.a.) fell sharply in February and March, and for the first quarter, the rate was 8.8 percent below that in the fourth

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted) 1

	Q4/Q4 1989	Q4/Q4 1990	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1990 Nov.	1990 Dec.	1991 Jan.	1991 Feb.	1991 Mar.	Latest 3 months from year ago 2
Canada												
GDP	2.9	-1.0	-.2	-.3	-1.0	n.a.	*	*	*	*	*	-1.0
IP	-.4	-5.4	-.0	-.8	-3.0	n.a.	-1.7	-1.1	-.2	-.8	n.a.	-6.0
France												
GDP	3.9	2.1	.1	1.1	-.1	n.a.	*	*	*	*	*	2.1
IP	2.8	-.4	1.5	1.5	-2.7	n.a.	-1.9	-1.8	3.2	-.6	n.a.	.3
West Germany												
GNP	3.2	4.8	-.9	1.7	.4	n.a.	*	*	*	*	*	4.8
IP	4.8	5.4	-.9	3.0	.4	2.0	-.4	-.8	3.6	-2.0	1.2	4.5
Italy												
GDP	3.0	n.a.	-.4	.7	n.a.	n.a.	*	*	*	*	*	1.7
IP	3.3	-3.8	-1.5	1.4	-1.9	n.a.	-.7	2.6	n.a.	n.a.	n.a.	-3.8
Japan												
GNP	4.8	4.7	1.4	1.1	.5	n.a.	*	*	*	*	*	4.7
IP	4.2	7.0	1.9	2.4	1.7	-.2	-.8	-.8	1.4	-.5	-1.3	5.9
United Kingdom												
GDP	1.3	-1.4	.2	-1.3	-1.0	n.a.	*	*	*	*	*	-1.4
IP	.2	-3.4	1.8	-3.2	-1.7	n.a.	-1.5	-.7	-.6	1.6	n.a.	-3.7
United States												
GNP	1.8	.5	.1	.4	-.4	-.7	*	*	*	*	*	-.6
IP	1.1	.3	1.0	1.0	-1.8	-2.4	-1.5	-1.0	-.5	-.9	-.3	-2.3

1. Asterisk indicates that monthly data are not available.
2. For quarterly data, latest quarter from year ago.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period) 1

	Q4/Q4 1989	Q4/Q4 1990	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Jan.	1991 Feb.	1991 Mar.	1991 Apr.	Latest 3 months from year ago
Canada													
CPI	5.2	4.9	.7	1.4	.9	1.1	1.4	2.9	2.6	.0	.4	n.a.	6.4
WPI	.2	1.6	-.6	.4	.3	-.1	1.0	.3	.0	.4	-.3	-.5	1.3
France													
CPI	3.6	3.6	.8	.7	.9	1.0	1.0	.5	.4	.2	.1	n.a.	3.4
WPI	.9	.7	-1.0	-.4	-.2	.2	1.1	n.a.	*	*	*	*	.7
West Germany													
CPI	3.1	3.0	.6	1.1	.5	.4	.9	.8	.6	.3	-.1	.5	2.7
WPI	4.3	.9	.3	-.3	.6	.2	.4	.5	1.1	.3	-.8	n.a.	1.7
Italy													
CPI	6.6	6.3	1.8	1.6	1.2	1.4	2.0	1.9	.7	.9	.3	n.a.	6.6
WPI	n.a.	10.0	3.2	1.4	-.0	3.9	4.4	n.a.	.7	.7	n.a.	n.a.	8.6
Japan													
CPI	2.9	3.5	.9	.4	1.2	.2	1.6	.8	1.0	-.3	.3	.4	3.6
WPI	3.7	1.9	-.3	.4	.8	.0	.7	.1	.0	-.4	.1	n.a.	1.6
United Kingdom													
CPI	7.6	10.0	2.0	1.8	4.7	1.6	1.6	.6	.2	.5	.4	n.a.	8.7
WPI	5.2	5.9	1.2	1.6	2.1	.9	1.1	2.0	1.2	.4	.7	n.a.	6.3
United States													
CPI (SA)	4.6	6.3	1.0	1.8	1.0	1.7	1.7	.9	.4	.2	-.1	n.a.	5.3
WPI (SA)	4.9	6.4	1.1	2.1	.1	1.6	2.5	-.8	-.1	-.6	-.3	n.a.	3.4

1. Asterisk indicates that monthly data are not available.

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES [1]
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1989	1990	1989	1990				1991	1990	1991		
			Q4	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
Canada												
Trade	5.8	9.3	1.0	1.4	2.6	2.8	2.4	n.a.	.9	.1	.5	n.a.
Current account	-14.1	-14.0	-4.0	-4.4	-3.6	-2.9	-3.1	n.a.	*	*	*	*
France												
Trade	-6.9	-9.3	-2.1	-.5	-2.0	-3.6	-3.3	-2.5	-1.8	-1.1	-.5	-.9
Current account	-3.8	-7.8	-2.3	-.2	-2.4	-3.0	-2.3	n.a.	*	*	*	*
Germany [2]												
Trade (NSA)	71.6	65.2	16.6	22.4	16.7	16.0	10.1	n.a.	2.4	.9	1.8	n.a.
Current account	55.5	47.3	13.5	18.5	10.9	9.4	8.5	n.a.	2.9	-1.4	-1.1	n.a.
Italy												
Trade	-12.6	-12.0	-2.3	-3.8	-1.9	-2.4	-3.9	n.a.	.8	-2.2	-.2	n.a.
Current account (NSA)	-10.9	-15.0	-1.5	-9.1	-2.6	-1.6	-1.7	n.a.	*	*	*	*
Japan												
Trade	64.5	52.2	12.2	15.6	13.5	14.7	8.5	17.6	2.6	5.0	5.1	7.5
Current account	57.6	36.2	9.2	15.3	8.0	7.0	5.9	17.8	1.3	3.8	5.9	8.1
United Kingdom												
Trade	-39.2	-31.4	-6.9	-9.8	-8.8	-7.2	-5.7	-5.6	-1.6	-2.5	-1.4	-1.7
Current account	-32.1	-28.2	-6.1	-7.6	-8.3	-6.6	-5.7	-2.7	-1.6	-1.5	-.4	-.8
United States												
Trade	-114.9	-108.7	-28.7	-26.8	-23.2	-29.8	-28.9	n.a.	*	*	*	*
Current account	-110.0	-99.3	-26.7	-22.3	-22.7	-26.5	-27.8	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Before July 1990, West Germany only.

quarter. The volatile new machinery orders series (s.a.) showed a combined January-February rate 3.3 percent below that in the previous quarter. The strongest indicator in the first quarter was retail sales (s.a.), which increased 3.6 percent from the fourth quarter. Latest monthly data showed some easing of pressures on labor markets and industrial capacity. Unemployment (s.a.) rose 0.2 percentage points to 2.2 percent in March, and the capacity utilization rate (s.a.) fell 2.9 percent in February. However, both measures continue to register near historical peaks of tightness. Monetary growth has continued to decelerate, consistent with a slowing in the pace of activity. The 12-month growth rate of M2+CDs fell to 4.9 percent in March, and the average level of that aggregate in the first quarter was slightly below that in the fourth.

Consumer prices in the Tokyo area (n.s.a.) rose 0.4 percent in April. Their 12-month rate of increase eased to 3.3 percent, well below the 4.3 percent peak recorded in January. Over the first four months of the year, consumer prices excluding perishable items (s.a.) increased at only a 1.9 percent annual rate. Wholesale prices (n.s.a.) increased 0.1 percent in March, while the increase from year-earlier levels declined to 1 percent. The "shunto" spring wage round is near its end. Preliminary indications are that agreed-upon wage increases have been held somewhat below last year's 5.9 percent rate.

The current account surplus (s.a.) increased to $8.1 billion in March. The trade surplus (s.a.) also increased to $7.5 billion in March. In the first quarter as a whole, the trade surplus rate was higher than in any quarter of last year.

First quarter indicators from <u>Germany</u> suggest modest strength in current output but weakness in leading indicators of economic activity. Total industrial production in western Germany was up 2.0 percent in the first quarter compared with the fourth quarter. Industrial production (s.a.) increased strongly in January (3.6 percent) and again in March (1.2 percent), after falling 2.0 percent in February owing largely to a weather-related drop in construction. The volume of new orders for west German manufactured goods (s.a.) increased 1.2 percent in March after falling 5.0 percent in February. For the first quarter as a whole, orders were down 0.8 percent compared with the fourth quarter. Domestic orders (up 0.1 percent in the first quarter relative to the fourth quarter) including orders from eastern Germany continue to outperform foreign orders (down 2.8 percent for the same period). In February the volume of retail sales (s.a.) in western Germany fell 0.6 percent, after increasing 5.7 percent in January. The average level of retail sales in January and February was 4.9 percent above that in the fourth quarter.

Unofficial estimates (published by a private research institution in Berlin) suggest that east German nominal GNP (n.s.a.) increased about 5 percent in the fourth quarter, after falling about 25 percent in the third quarter. Industrial production in eastern Germany (n.s.a.) fell 10.5 percent in December, after increasing 6.4 percent between August and November. For the fourth quarter as a whole, industrial production was 51 percent below year-earlier levels due to sharp declines in July and August.

West German unemployment (s.a.) was unchanged in March and April at 6.2 percent, the lowest rate in western Germany since 1981. Official east German unemployment (n.s.a.) was 9.5 percent in April, up from 9.1 percent in March. The number of workers engaged in government-subsidized "short-time" work (n.s.a.) increased 0.3 percent in April to 22.7 percent of the labor force.

West German consumer prices (n.s.a.) increased 0.5 percent in April, after declining 0.1 percent in March. On a year/year basis consumer price inflation increased from 2.5 percent in March to 2.7 percent in April. West German producer prices (n.s.a.) fell 0.1 percent in February and 0.3 percent in March.

The combined German current account (n.s.a.) was in deficit by $13 billion (a.r.) in February, up slightly from January's revised deficit of $17 billion. These figures compare with a surplus rate of $34 billion in the fourth quarter. Excluding payments related to the Gulf war, however, the German current account was almost balanced in February. The combined German trade surplus (s.a.) was $22 billion (a.r.) in February, compared with a surplus of $39 billion in the fourth quarter.

On May 5, employers reached agreement on a new one-year contract with the metalworkers' union in the Stuttgart area. The agreement calls for an average wage increase of 6.7 percent, with additional benefits making the whole package worth 7 percent. There is to be no reduction in the work week. The agreement is expected to be a model for other negotiations involving IG Metall, Germany's largest union, throughout western Germany.

Activity in France appears to have stagnated in the first quarter. Although industrial production (s.a.) rebounded 3.2 percent in January from December, it fell 0.6 percent in February. Excluding energy and food processing, manufacturing output fell 3.3 percent (s.a.) in February. On the demand side, household consumption of manufactured products (s.a.) was unchanged in the first quarter from the fourth quarter. The unemployment rate (s.a.) crept up to 9.3 percent in March from 9.0 percent in December.

French consumer price inflation (n.s.a.) remains moderate. The CPI was up 3.3 percent on a twelve-month basis in March, compared to 3.5 percent in February. Wage growth continues to run significantly ahead of price inflation, with the average hourly wage up 5.1 percent (Q1/Q1) in the first quarter.

First-quarter weakness is evident in Italy. After rising 0.4 percent in January, industrial production (n.s.a.) declined 3.1 percent in February from its year-earlier level. Auto sales in March were off 4.5 percent from a year ago. Consumer prices (n.s.a.) stood 6.7 percent higher in April from a year earlier, up slightly from the rate of inflation in March. Wholesale prices (n.s.a.) jumped to 9.7 percent in February (yearly basis) from 7.8 percent in January, reflecting a one-time increase in administered prices. The trade deficit (s.a.) in the first quarter was significantly below the deficit registered in fourth quarter.

Prime Minister Andreotti successfully formed a new government without an election, and no major changes in economic policy are expected. The Prime Minister also announced that the government's mid-year supplementary budget must reduce expenditures by $12 billion because slower economic growth has caused the projected 1991 budget deficit to exceed its target level.

The recession in the United Kingdom appears to have deepened in the first quarter of this year. In February, manufacturing output (s.a.) fell 1.6 percent, the biggest monthly decline in three years, to a level 5.8 percent below February 1990. Retail sales (s.a.) rose a provisional 3.7 percent in March in advance of higher VAT tax rates that took effect April 1. Unemployment (s.a.) rose for the twelfth consecutive month in March, reaching a rate of 7.4 percent and pushing the total number of unemployed above the politically sensitive level of 2 million.

Retail prices (s.a.) rose slightly in March to a level 8.2 percent above a year earlier. Excluding mortgage interest rates and the poll tax, the underlying rate of inflation continued to fall from its peak of 8.4 percent in October to 7.3 percent in March. However, the recent behavior of producer prices shows less moderation of inflation. Output prices for manufactured goods (n.s.a.) rose 0.7 percent in March, to give a 12-month rise of 6.3 percent, up from 5.9 percent in December. In the first quarter of 1991, pay settlements in the manufacturing sector averaged 8.3 percent after an average rate of pay increase of 8.9 percent in the last quarter of 1990.

The Conservative Party suffered sharp losses in local elections held May 2, practically eliminating the prospects of a parliamentary election in June. Prime Minister Major is now likely to wait until there are clear signs of recovery from the recession before calling the general election that must be held by July 1992.

In Canada, the introduction of the Goods and Services Tax (GST) on January 1 disrupted economic activity in the first quarter. Retail sales (s.a.) plummeted 4.0 percent in January, but rebounded 1.6 percent in February. Manufacturers' shipments (s.a.) were off 0.3 percent in February, and orders (s.a.) fell 1.4 percent. Industrial production (s.a.) fell 0.8 percent in February. Bankruptcies were 52.5 percent higher in March than a year ago.

Consumer prices (n.s.a) rose 0.4 percent in March, pushing the 12-month measure of inflation up slightly to 6.3 percent. The introduction of the GST in January caused consumer price inflation to jump from 5.0 percent in December to 6.8 percent in January. Excluding food and energy, however, the CPI jumped from 6.0 percent in February to 6.4 percent in March, owing mainly to higher federal and provincial taxes on tobacco. Major wage settlements (n.s.a.) increased 5.6 percent (a.r.) in the fourth quarter, down from 6.4 percent (a.r.) in the third quarter.

Prime Minister Mulroney reshuffled his cabinet on April 21. The new Finance Minister, Don Mazankowski, has pledged to continue the government's program of fiscal austerity to reduce the budget deficit and to support the Bank of Canada's anti-inflation program.

Developments in East European Countries

The most notable development in Eastern Europe in the first quarter was the switch in the CMEA trade regime from barter to hard-currency clearing at international prices. Contrary to predictions of large trade deficits and despite a collapse of trade between CMEA members, Hungary posted a trade surplus, and widening of trade deficits experienced by Poland and the CSFR was relatively minor.

On the strength of surging exports, Hungary achieved a trade surplus of about $150 million in the first quarter of 1991. Despite having negotiated an agreement with the Soviet Union designed to cushion the transition from barter to hard-currency trade, Hungary's exports to the Soviet Union collapsed to only $85 million, just 1 percent of the target level, as of the end of February. The unemployment rate in Hungary rose to 2.5 percent in February, and monthly inflation was 4.4 percent (year-over-year, 32.6 percent).

To cushion the transition in CMEA trade to hard-currency clearing and international prices, the CSFR negotiated an agreement with the Soviet Union that was designed to maintain CSFR exports to the Soviet Union at about 40 percent of the volume of trade in 1990. However, in the first six weeks of 1991, hard-currency exports to the Soviet Union were officially zero. Industrial production in the CSFR fell 6.7 percent in the first two months of 1991 with the recession relatively deeper in the Slovak Republic. Prices were freed on January 1 as part of the move to a market-oriented economy, and the price level rose about 27 percent in January over December with a further increase of 6 percent in February.

Poland and the Soviet Union have yet to reach any agreement about the conduct of trade in the post-CMEA era, and trade with the Soviet Union has collapsed. In the first quarter of 1991, Poland exported products worth only $20 million and imported oil from the Soviet Union worth $300 million, contributing in large part to Poland's trade deficit of $334 million in the first quarter. Sales of industrial goods in Poland dropped an average of 3.2 percent in January and February 1991 compared to 1990. However, this measure underreports private sector activity and is not adjusted for workdays-per-month or for strike activity. In fact, only 3 of 8 sectors (machine-building, metallurgy, and building materials) experienced downturns. Monthly inflation was 4.5 percent in March, down from the January and February monthly rates, but nearly double the 2.5 percent projection. The forecast for inflation for the year has been increased from 36 to 55 percent.

Economic situation in other countries

After months of protracted negotiations, in early April, Brazil reached an agreement with bank creditors on the $8 billion in interest arrears that had accumulated between July 1989 and December 1990. Progress of fiscal reform in Brazil is limited, and economic activity remains stagnant. Argentina's latest stabilization program, announced March 20, has drastically reduced inflation, but more fiscal reform is necessary for the program to be sustainable. Mexico continues to enjoy investor confidence in its economic policies. In Korea, the current account deficit rose to $3.9 billion in the first quarter of 1991 from $1.1 billion in the first quarter of 1990. In Taiwan, economic growth appears to be recovering somewhat from the slowdown in 1990.

Individual Country Notes. In early April, Brazil reached agreement with bank creditors on the estimated $8 billion in interest arrears that had accumulated between July 1989 and December 1990. The Brazilian legislature must ratify the agreement, but no serious problem is expected. Under the agreement, Brazil would pay $2 billion in cash, $900 million shortly after completion of the term sheet and $1.1 billion in eight equal monthly installments beginning in May. The remaining $6 billion of arrears would be exchanged for 13-year bearer bonds, which would have a staggered amortization, including three years of grace. Banks have two interest rate options on the bonds. The bonds would be issued once an agreement is reached on a refinancing of the medium- and long-term debt. Such an agreement is unlikely to be reached quickly.

Brazil continues to accumulate interest arrears during 1991. Brazil paid about 30 percent, or about $400 million, of the interest due in the first quarter of 1991. The government has stated that it will pay 30 percent, or $210 million, of interest due in the second quarter.

An IMF mission is currently in Brazil for Article IV consultations, but there are no plans for an IMF program soon.

Economic activity remains stagnant, and domestic investment is reported to be down sharply in response to the disappointing pace of fiscal reform and limited future prospects. Consumer prices rose 12 percent in March, despite a price freeze. The government is finding it increasingly difficult to finance fiscal deficits in domestic capital markets and has been increasingly relying on monetary expansion and partial defaults on its obligations. The monetary base rose by 38 percent in February and 12 percent in March. Regional courts in Brazil have recently ruled in favor of Brazilian investors attempting to force the government to release $30 billion in assets that were frozen in March 1990. The government has appealed to the Supreme Court, which sided with the government in one ruling, but that action sets no formal precedent for the other cases. The frozen assets are scheduled to be released beginning in September. In late April, 120,000 cases were pending. Fiscal pressures will continue to be heavy over the next few months.

Brazil's trade surplus for the first quarter in 1991 was $3.4 billion, compared with surpluses of $4.2 billion and $2 billion for the same periods in 1989 and 1990, respectively. Intervention has kept the spread between the official and parallel market exchange rates steady at about 12 percent. International reserves were $8.7 billion at the end of February.

In Argentina, the authorities announced a new stabilization program on March 20. Under the program, the central bank is obliged by law to support the exchange rate at or below 10,000 australs per dollar and to keep foreign exchange reserves, including gold, equal to or greater than the value of the monetary base. The program outlaws the use of inflation-indexation clauses in contracts, which are viewed as leading to inertial inflation. The program also legalizes foreign currency contracts, including loans, in a bid to stimulate domestic financial intermediation and economic recovery.

Since the program's announcement, the exchange rate has stabilized

. Short-term interest rates have declined to below 2 percent per month, the lowest rates in decades, in response to expectations of close-to-zero exchange rate depreciation over the next few months. Consumer price inflation, which had been declining even before the new program's announcement, fell from 27 percent (monthly basis) in February to 11 percent in March and 5.5 percent in April.

To be sustainable, the new program must be accompanied by significant fiscal adjustment. The authorities have stepped up tax collection activity, but it is too early to determine whether these efforts will generate substantially more revenue. Negotiations are under way with the IMF on a new program to replace the stand-by arrangement that became inoperative at the beginning of this year, after Argentina missed its 1990 fourth-quarter performance criteria. On May 1, the World Bank approved a $300 million loan to support public sector reforms.

Mexico's international reserves, excluding gold, rose by about $3.4 billion in 1990 and totalled nearly $10 billion at year end. Indications are that they continued to increase in the early part of 1991, although figures are not available. Reserves rose despite a $1.3 billion increase in the current account deficit for the year. The reserve gain was due to growing private capital inflows, including direct and portfolio investment, borrowings by both public and private sector entities on a voluntary basis, and the repatriation of flight capital. The $1.3 billion widening of the current account deficit was larger than expected mainly because external interest payments in 1990 were not as low as they had been expected to be after last year's bank financing package.

The return of Mexican borrowers to the international capital market has been taking place on increasingly favorable terms. During the first two months of 1991, external bonds issued by Mexican borrowers totaled nearly $1 billion. In addition, some Mexican firms have gained access to foreign stock markets. The conglomerates VITRO and FEMSA have issued ADRs in the New York market. The VITRO issue was originally planned for $50 million, but was increased to $73 million because of higher-than-expected demand. On May 15, the Mexican government will sell shares in the telephone system worth nearly $2 billion in the U.S., Japanese, and European stock markets.

In Korea, the current account deficit rose to $3.9 billion in the first quarter of 1991 from $1.1 billion in the first quarter of 1990. Rapid import growth was largely due to purchases of passenger aircraft and capital goods and sharply higher oil imports. In March, the Korean Ministry of

Finance approved domestic branches for four foreign securities firms (including two U.S. firms). The Ministry denied entry to four Japanese securities firms reportedly on the basis of two factors: limited Korean access to Japan's securities market and Korea's large bilateral trade deficit with Japan. Korean securities firms currently have only representative offices in Japan.

In Taiwan, economic growth appears to be recovering somewhat from the slowdown in 1990. In the first quarter, industrial production was 4.6 percent above a year earlier. This compares with declines in the first three quarters of 1990 and an increase of 2.5 percent in the fourth quarter. In the first quarter of 1991, the cumulative trade surplus (on a customs basis) was $1.6 billion, slightly less than in the same period last year, despite a large increase in heavy industrial and chemical exports. Imports of industrial raw materials, including crude oil, were sharply higher in the first quarter of 1991. Although the United States remains Taiwan's largest export market, exports to the United States were lower in the first quarter than one year earlier, while exports to Europe and Hong Kong (and indirectly to China) were markedly higher.